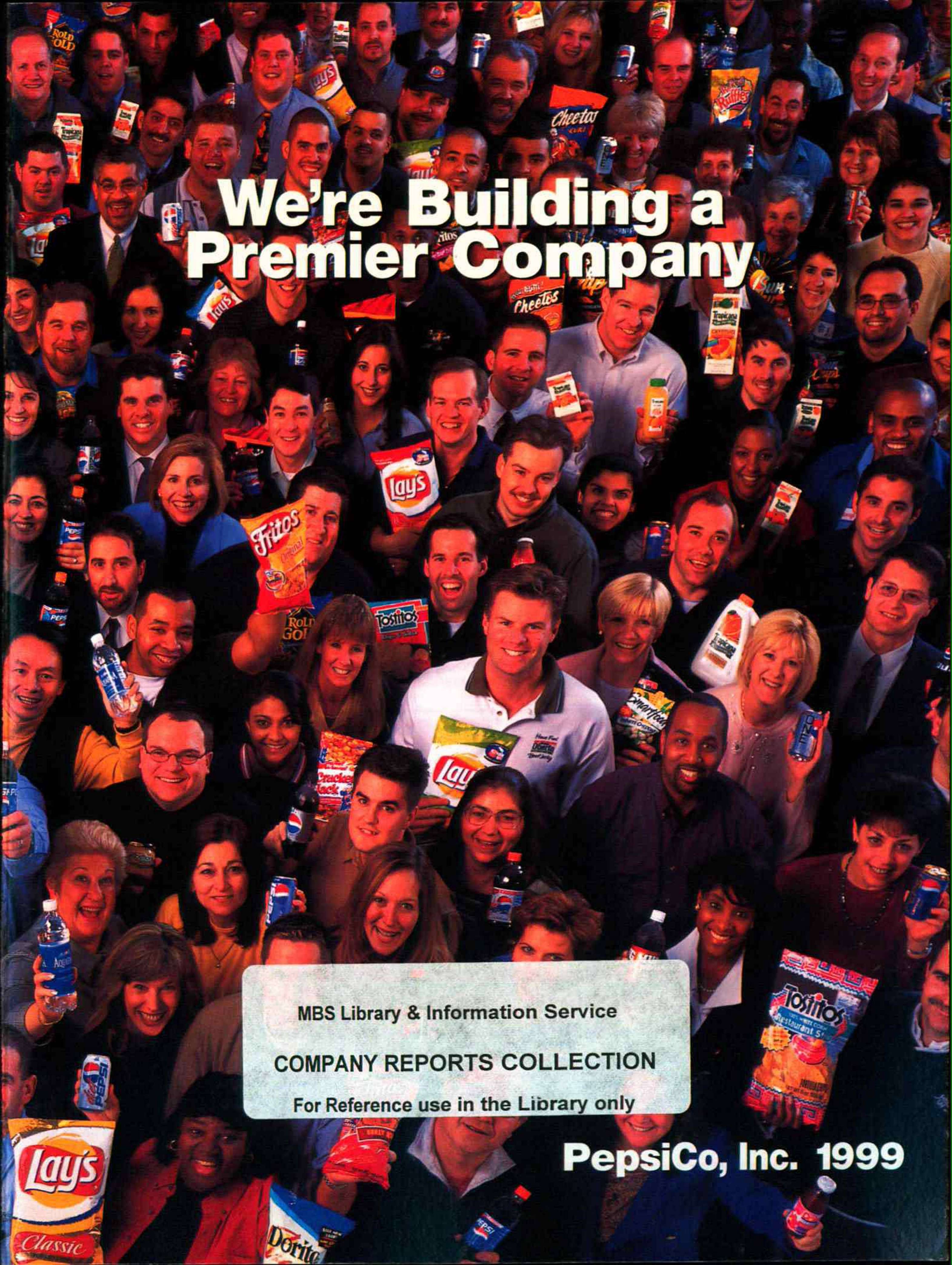
We're Building a Premier Company



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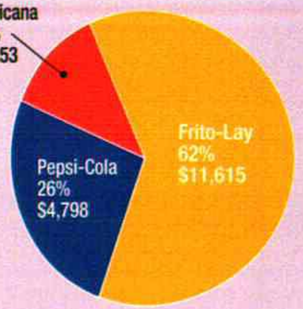
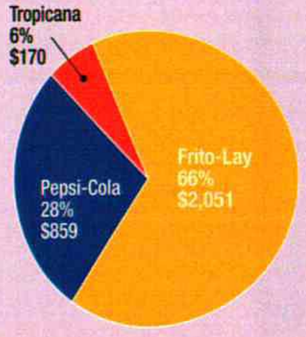
PepsiCo, Inc. 1999

Contents

Pro Forma New PepsiCo Net Sales
Total: $18,666
$ In Millions



Pro Forma New PepsiCo Segment Operating Profit
Total: $3,080*
$ In Millions



*Excludes unallocated expenses.

Financial Highlights

PepsiCo, Inc. and Subsidiaries
($ in millions except per share amounts; all per share amounts assume dilution)

	As Reported			Pro Forma New PepsiCo [(b)]		
	1999	1998	% Chg [(a)]	**1999**	1998	% Chg [(a)]
Summary of Operations						
Net sales	**$20,367**	$22,348	(9)	**$18,666**	$17,626	6
Operating profit	**$ 2,818**	$ 2,584	9	**$ 2,802**	$ 2,570	9
Net income	**$ 2,050**	$ 1,993	3	**$ 1,850**	$ 1,666	11
Per share	**$ 1.37**	$ 1.31	5	**$ 1.24**	$ 1.10	13
Other Data						
Net cash provided by operating activities	**$ 3,027**	$ 3,211	(6)			
Acquisitions and investments in unconsolidated affiliates	**$ 430**	$ 4,537	(91)			
Share repurchases	**$ 1,285**	$ 2,230	(42)			
Dividends paid	**$ 778**	$ 757	3			
Long-term debt	**$ 2,812**	$ 4,028	(30)			
Capital spending	**$ 1,118**	$ 1,405	(20)			

(a) Percentage changes above and in text are based on unrounded amounts.

(b) The pro forma new PepsiCo information gives effect to the Tropicana acquisition described in Note 3 to the Financial Statements and the bottling transactions described in Note 2 as if the transactions occurred at the beginning of PepsiCo's 1998 fiscal year. In addition, the 1999 pro forma results exclude the Frito-Lay impairment and restructuring pre-tax charge of $65 million ($40 million after-tax), the pre-tax gain on the sale of a chocolate business in Poland of $28 million ($25 million after-tax), the pre-tax net gain on the PBG and Whitman bottling transactions of $1 billion ($270 million after-tax) and the income tax provision of $25 million related to the PepCom transaction. The 1998 pro forma results exclude the income tax benefit of $494 million described in Note 14 and the asset impairment and restructuring charge of $288 million ($261 million after-tax or $0.17 per share assuming dilution) described in Note 4. The pro forma new PepsiCo information does not purport to represent what PepsiCo's results of operations would have been had such transactions been completed as of the dates indicated nor does it give effect to any other events.

Dear Friends:

The PepsiCo associates on our cover have a lot to smile about these days. Thanks to them and our colleagues around the world, we had a terrific 1999.

Roger A. Enrico
Chairman and Chief Executive Officer

Every one of our five operating divisions posted growth in revenue, volume and operating profit. Every one generated excess cash. And nearly every one gained market share. On a pro forma basis, we posted revenue growth of 6% in snacks, 4% in beverages and 10% in juices. Operating profits grew 11% in snacks, 2% in beverages and a whopping 55% in juices. Our cash provided by operations totaled $3 billion and our return on invested capital was a very healthy 20%.

As the numbers show, PepsiCo today is lean and strong. Even better, we're focused squarely on three great businesses full of opportunity: Frito-Lay snacks, Pepsi-Cola beverages and Tropicana juices.

It's no accident. We've transformed PepsiCo with the goal of being one of the world's very best and fastest growing consumer products companies — a premier performer delivering healthy, consistent financial results quarter after quarter, year after year.

And we've come a long way. Just look at how our numbers today compare with four years ago:

- Sales are more than one-third lower, yet earnings are higher;
- Operating free cash flow of $2 billion is also higher;
- Return on invested capital has risen from about 15% to 20%;
- Operating profit margin has risen from 10% to 15%;
- Shifting to less capital-intensive businesses has reduced our capital spending from 6.9% of sales to 5.5%;
- Net debt has been reduced from $8 billion to $2 billion.

During those four years we returned $10.6 billion to shareholders — $7.6 billion in share repurchases plus $3 billion in dividends.

And I'd add that in that time we've become arguably the single most important supplier to U.S. retailers in terms of their sales growth, profit and cash flow.

So why didn't our stock reflect our progress? It's a point of great frustration for me, and I'm sure for you as well. I believe we're doing the right things both strategically and financially. Our earnings met or beat Wall Street expectations in every quarter of 1999. Virtually every securities analyst who covers us rates PepsiCo a "buy." And we outpaced our food and beverage peers.

For all that, though, consumer products companies have been out of favor with investors. To me that's not an excuse, it's a challenge. It means we must work even harder to tell our story. And with our transformation complete, I plan to devote a lot more time to showing investors exactly why PepsiCo is a financial gem well capable of double-digit profit growth, strong cash flow and a return on invested capital above 20%.

It's a challenge I welcome. In fact, I've never been more optimistic about PepsiCo — not just because our financial picture is so much brighter, but also because today this company and the consumer are absolutely in sync. We're sharply focused on meeting the demand for convenient foods and drinks. It's a global opportunity measured in the hundreds of billions of dollars. And it's growing.

From Mexico to Miami to Malaysia, people are pressed for time, so they're eating fewer traditional meals and snacking more. They want convenient food that tastes great.

That puts PepsiCo right in the "sweet spot" of the food and beverage arena — the center of growth today and in the future. That's crucial if you want to stand out among premier companies.

Which gets me to an important question: What exactly is it that enables the best consumer product companies to grow year in and year out?

It seems to me the great companies share five basic qualities:

1. Leadership market positions
2. Strong, well-recognized brands
3. Good growth prospects
4. Globally diverse portfolios
5. Advantaged business systems.

Today PepsiCo measures up well on all of these. Let me show you.

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1 Leadership Market Positions

Our businesses — every one of them — rank either number one or number two in the world, in North America and internationally.

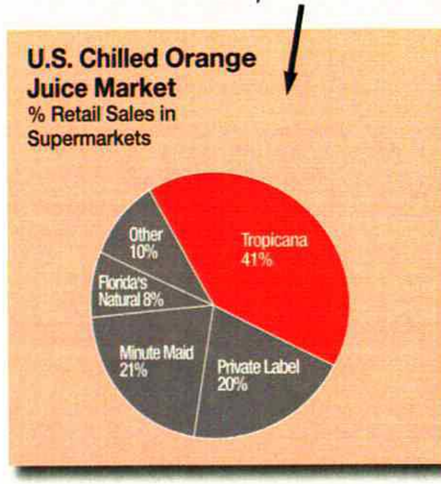
Frito-Lay leads the world in salty snacks, with a market share of about 40%. It is more than seven times the size of its next-largest competitor and holds the top position in 20 countries, including seven of the world's top-10 salty snack markets. In our largest market, the United States, Frito-Lay accounts for 56% of salty snack volume. Outside the United States and Canada, we account for about one-third of the salty snack market.

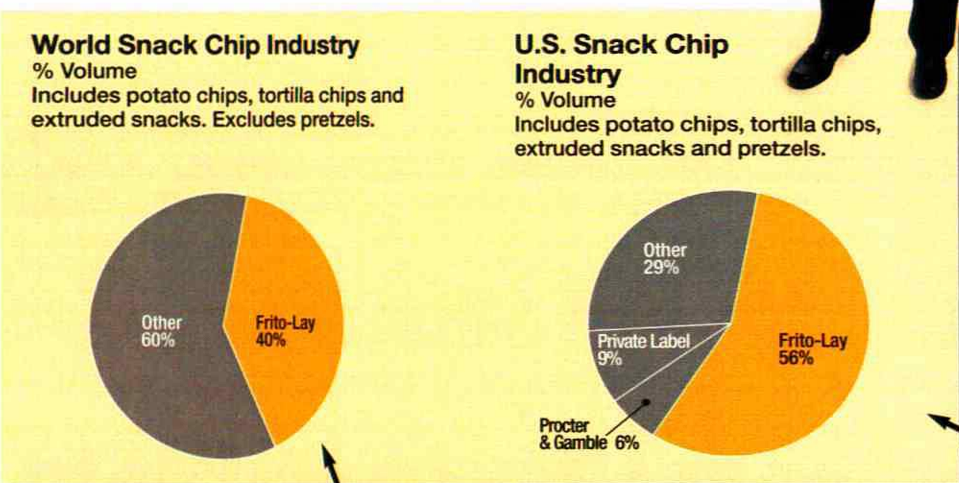
Pepsi-Cola, the world's second-largest refreshment beverage company, commands a number one or number two position in more than 50 countries.

Tropicana stands as the largest seller and marketer of branded juices in the world. It is one of the top companies in six of the 10 largest juice markets. In the United States, Tropicana's share of the chilled juice market is nearly twice that of its nearest competitor.

Sharmela Chandlall-Myrand, Frito-Lay

Tropicana's share of the U.S. chilled orange juice market is nearly double that of its nearest competitor.

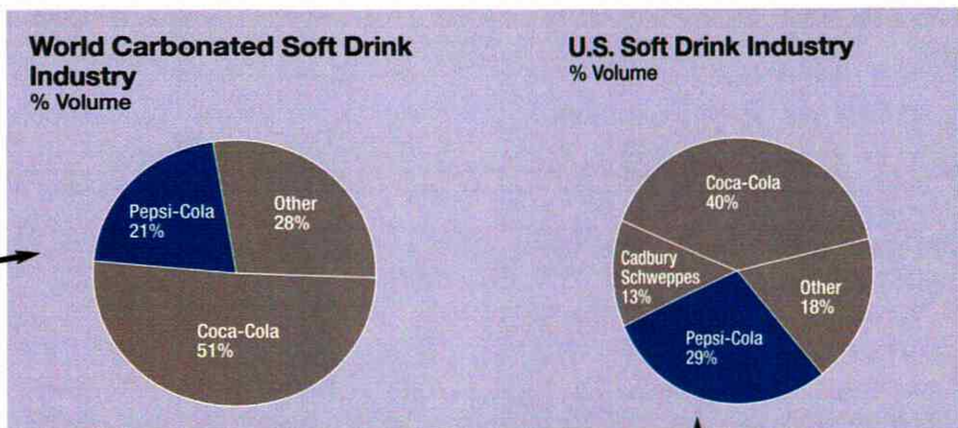




In the United States, our largest market, Frito-Lay is nine times the size of its nearest snack chip competitor.

Frito-Lay, the leading salty snack company, accounts for about 40% of the world's salty snack market.

Pepsi-Cola is the world's second largest soft drink company.



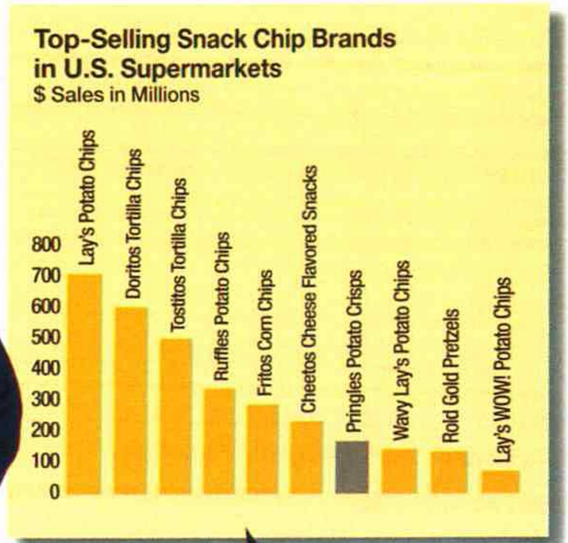
Pepsi-Cola brands account for more than $21 billion in retail sales in North America. Worldwide retail sales are more than $32 billion.

Lorna Aaron, PepsiCo

2 Strong, Well-Recognized Brands

PepsiCo owns many of the world's best-loved consumer brands. Globally Lay's potato chips is the number one salty snack, Tropicana Pure Premium is the leading chilled juice and Pepsi is the number two soft drink. Even more remarkable, we have a whole portfolio of powerful brands. Sixteen of our brands generate retail sales of more than $500 million each, including 10 that generate more than $1 billion. Few companies anywhere can make that claim.

Our brand strength is especially striking in the huge U.S. supermarket channel. We have nine of the top-10 salty snacks, three of the top-10 soft drink brands and four of the top-10 refrigerated juice brands. In fact, Pepsi-Cola,



Frito-Lay sells nine of the top-10 snack chip brands in supermarkets, the largest distribution channel.

Frank Zelesnik, Tropicana; Nicholas C. Roechell, Pepsi-Cola Bottling

Frito-Lay North America continued to show the strength that for years has made it one of the world's fastest growing major food companies. Healthy volume growth of 4% boosted our already leading market share by nearly two percentage points to a record high of 56%, thanks to gains across a range of our core snack brands — especially Doritos, Fritos and Cheetos.

We also made important progress in our strategic expansion beyond traditional salty snacks. Cracker Jack approached the $100 million sales mark, nearly double the level when we acquired it in 1998, as we offered larger, more economical packages and expanded distribution. We also introduced snack kits that combine Fritos or Tostitos and a microwavable container of chili or flavored dip. They're heartier than a snack, but lighter than a meal.

Some of the most exciting progress at Frito-Lay involved productivity initiatives that enable us to transform our business. Though our sales force has used hand-held computers since 1986, we used new order placement and packing technology to dramatically improve distribution efficiency and flexibility.

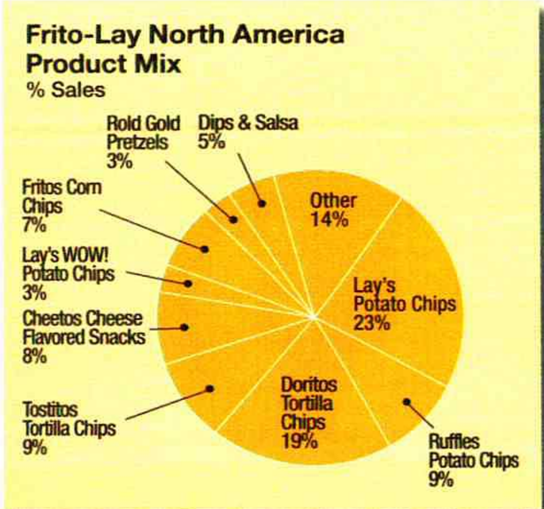
The new process reduces costs, frees salespeople to spend more time selling and allows us to add more accounts to each sales route. And by using truck space much more efficiently, we gain the capacity to add many new types of products without burdening our system — a critical step forward as we strategically expand beyond traditional salty snacks.

Outside North America, Frito-Lay International continued to grow, despite obstacles ranging from economic turmoil in Brazil to earthquakes in Turkey to floods in Venezuela. Our very large businesses in Mexico performed extremely well. We also saw strong results from two businesses formed in recent years through strategic combinations: the 10-country Latin American joint ventures we formed in 1998 and the business that resulted after our acquisition in 1998 of Australia's leading salty snack company. In Brazil, where economic conditions were toughest, we took major steps to reduce costs in an effort to protect the long-term strength of our business.

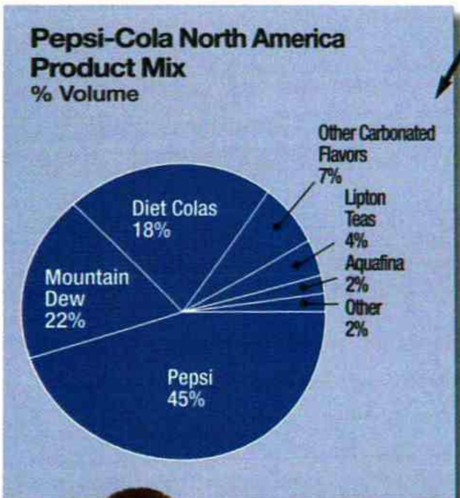
Tropicana Pure Premium and Lay's rank among the dozen largest-selling brands of *all* product categories.

Our brands have also demonstrated great strength internationally, where Lay's is the largest snack brand and Doritos is the fastest growing. Pepsi-Cola is the second-largest carbonated soft drink brand internationally, and Tropicana Pure Premium is one of the world's leading juice brands.

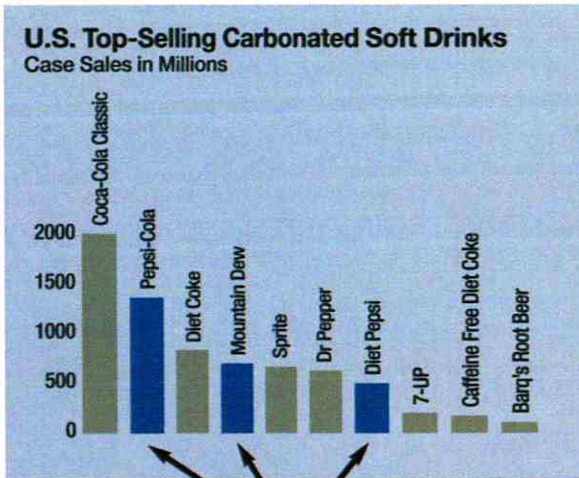
Surveys rank Lay's and Pepsi among the top consumer brands in the world. So it's not surprising that when we launched Lay's in Australia, a large, developed snack market, it took just six weeks to become the number one potato chip. That's brand power.



In the United States and Canada, Frito-Lay brands account for more than $9 billion in retail sales. Worldwide Frito-Lay brands generate more than $14 billion in retail sales.



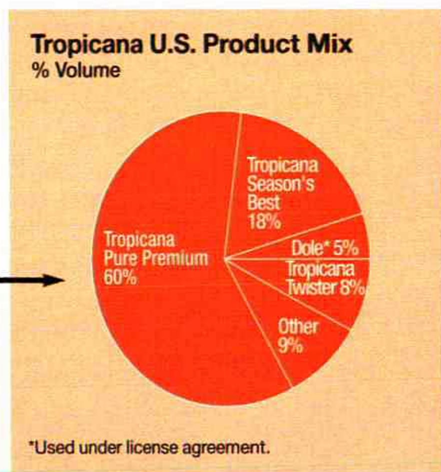
Pepsi products include carbonated soft drinks and alternative beverages. Our partnerships with Lipton Teas and Starbucks have made Lipton Brisk and Frappuccino coffee drink category leaders, and Aquafina is now the leading bottled water brand.



Pepsi-Cola sells three of the top-10 soft drinks in the U.S. and accounts for about a third of the $58 billion category. Number four overall, Mountain Dew now ranks third in a big retail segment including most supermarkets, convenience stores, mass merchandisers and other outlets.

Chris Savva, Pepsi-Cola Bottling; Antoinetta Paissides, Pepsi-Cola Bottling; Michael Smith, Frito-Lay

Tropicana brands account for about $2.3 billion in retail sales in the United States. Tropicana Pure Premium is now the fourth largest of all brands sold in supermarkets.



3 Good Growth Prospects

In our businesses, opportunities abound.

At Frito-Lay North America, we continue to build our core salty snack business — potato chips, corn chips and cheese puffs — in two basic ways. We create a continual stream of great new products, the kind that have generated 75% of Frito-Lay sales growth since 1991. We also target underdeveloped regions, categories and distribution channels. Simply raising them to our national share could add $500 million in sales.

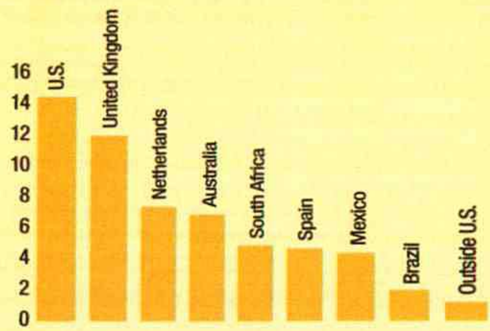
At the same time, Frito-Lay is expanding beyond traditional salty snacks into what we call "convenient impulse foods," a larger $20 billion market that includes products like trail mix, snack kits and meat snacks. These types of products represent big new growth opportunities that can leverage Frito-Lay's strength in research, development, marketing, manufacturing, selling and distribution. And to accommodate more products, we've designed a way for our delivery trucks to handle twice as many items as before.

Outside North America, Frito-Lay has an enormous opportunity. In the last decade the international salty snack market has grown from $10 billion to more than $20 billion, yet most markets remain vastly underdeveloped. So here Frito-Lay focuses on the basics: making top-quality salty snacks, keeping them affordable and distributing them more widely each year. By doing that we've built a $1 billion salty snack business in Mexico alone. Raising consumption in all our international markets to Mexico's level would expand the market opportunity by tens of billions of dollars.

Likewise Pepsi-Cola North America is pursuing several exciting avenues of growth. It is building its traditional brands in the $58 billion carbonated soft drink market. At the same time, it is reaching into newer, faster-growing categories, like bottled water, ready-to-drink tea, coffee drinks, juice products and isotonic sports drinks. With the ability to take almost any shelf-stable beverage to hundreds of thousands of outlets each day, the Pepsi-Cola system has the

Relatively low consumption of snack chips in most of the world offers huge growth opportunities for Frito-Lay.

Annual Per Capita Consumption of Snack Chips
In Pounds
Includes potato chips, tortilla chips and extruded snacks. Excludes pretzels.



Changes completed in 1999 have substantially improved both our competitive position and our prospects for growth.

We wanted to consolidate most of our manufacturing and distribution into a few "anchor" bottlers — businesses with the scale, financial resources, operating skills and geographic reach to provide great service to retailers of all sizes and succeed against a large, well-financed competitor.

So we combined PepsiCo-owned bottling assets with those of several large franchisees to form four even larger bottlers in which we hold minority stakes: The Pepsi Bottling Group, Whitman, PepsiAmericas and Pepsi Bottling Ventures. They account for 75% of our U.S. volume. The Pepsi Bottling Group sold 60% of its common stock. These transactions yielded $5.8 billion to PepsiCo and reduced our asset base significantly.

All this freed Pepsi-Cola North America to focus on marketing and brand building. Our volume grew only slightly, as the first major retail soft drink price increases in years dampened consumer demand in summer and fall. The good news is, improving volume later in the year showed consumers adjusting as we expected.

Among our most noteworthy gains: Volume in mass merchandisers grew more than 30%, Mountain Dew moved up to become the number three soft drink in measured retail channels in the United States, and Aquafina became the leading bottled water.

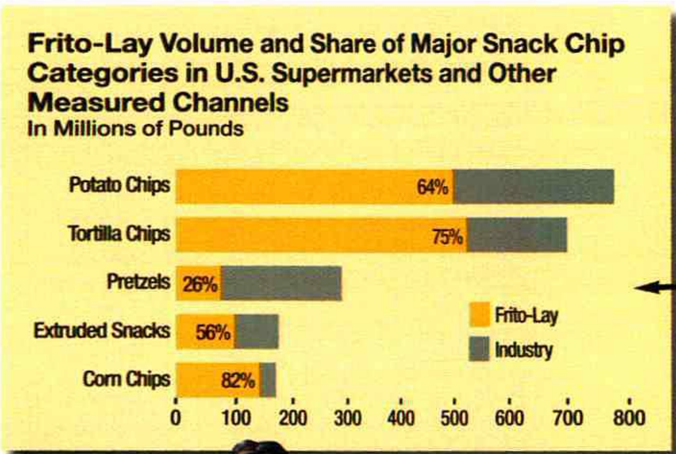
Amid economic challenges in many countries, Pepsi-Cola International posted modest volume growth but gained market share faster than our largest competitor. Particularly encouraging was where we showed the greatest strength. A number of our established markets and our most important developing markets posted healthy volume gains, including Europe, the Middle East, China and India — a clear sign that years of investment are paying off. A decade ago China and India weren't even in our top 30 markets. Today they're our third and fifth largest.

flexibility to adapt and grow as consumer tastes evolve.

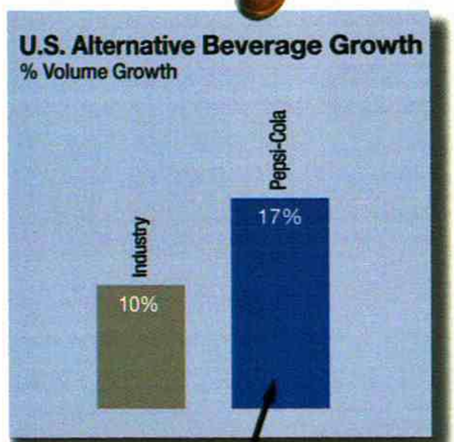
Internationally Pepsi-Cola is teaming up with bottling partners that have the size and strength to operate economically and compete effectively. We also continue to invest aggressively in our established markets, like the Middle East, as well as in large emerging markets like India and China where the playing field is level and the growth prospects are particularly bright. It's paying off. Pepsi is India's biggest-selling cola brand.

Tropicana meanwhile leads growth in one of North America's fastest growing grocery categories, chilled juices, in part by providing nutritionally innovative products. It is also pursuing geographic opportunities, building its national and regional shares in chilled juice in an effort to achieve everywhere the kind of commanding presence it has in the Northeast. With just one-fifth of American breakfasts including orange juice today, the growth potential for Tropicana is huge. Shelf-stable juice products offer yet another largely untapped opportunity, particularly as Tropicana brings to bear its health and nutrition credentials. And a rapidly growing international business has shown clearly Tropicana's exciting prospects around the world.

Barbara Morrison, Frito-Lay; Zenil Kane, Pepsi-Cola Bottling



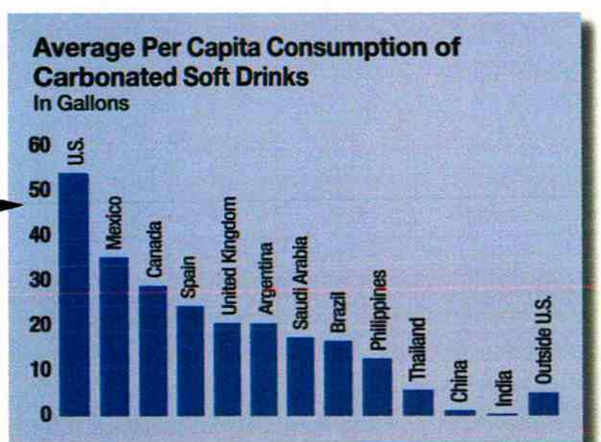
Frito-Lay is building its core salty snack business by introducing new products and targeting less-developed categories, regions and distribution channels.

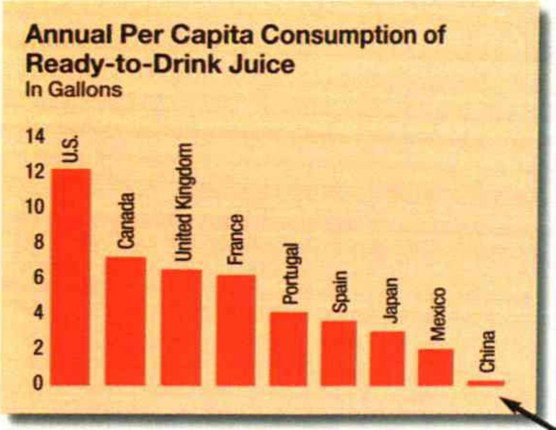


Pepsi-Cola's alternative beverage business, including bottled water, ready-to-drink teas and coffee drinks, sports drinks and juice drinks, grew 70% faster than the category.

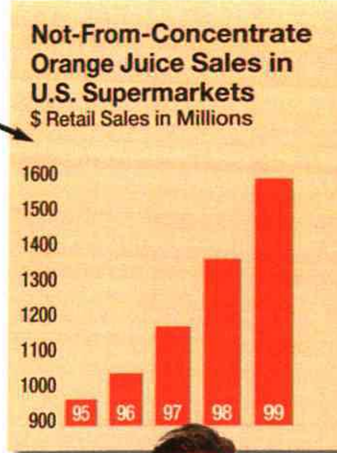
Doris Baglione, Tropicana; Randy Knopf, Frito-Lay; Lillian Vega, Pepsi-Cola Bottling

Worldwide carbonated soft drink consumption is growing. On average, people outside the United States consume about 10% more soft drinks now than they did four years ago.



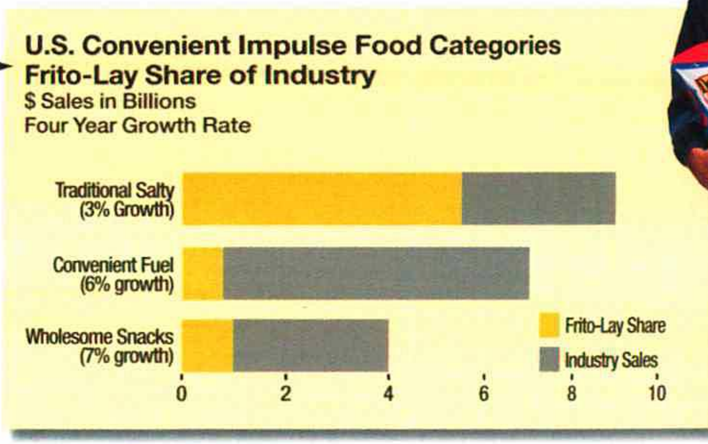


Not-from-concentrate orange juice sales grew at a compounded annual rate of 13% from 1995-1999. Sales of Tropicana Pure Premium accounted for 72% of the category and grew even faster at 14%.



Consumption of ready-to-drink juice in most countries is low relative to the United States, but is growing consistently. Tropicana is in a strong position to capitalize on this growth.

Frito-Lay is expanding beyond traditional salty snacks (corn chips, potato chips, cheese puffs) into the broader market for convenient impulse foods. This includes two large segments growing at least twice as fast as traditional salty snacks: "wholesome snacks" (wheat snacks, pretzels) and "convenient fuel" (dips, snack kits, meat snacks and nuts).




Victor Benoit, Frito-Lay

Tropicana

In its first full year as part of PepsiCo, Tropicana clearly showed the power of its brands and its ability to grow though innovation. Despite higher prices due to a shortfall in the orange crop, Tropicana posted global volume growth of nearly 4%.

Tropicana Pure Premium brand led the way, with an 8% volume gain, attributable in large part to the tremendous appeal of our chilled orange and grapefruit juices fortified with vitamins and calcium. The success of these products offers a hint of our exciting opportunity in the growing market for "functional" foods with added nutritional benefits.

When it comes to building functional foods, Tropicana Pure Premium orange juice is the perfect starting point. It naturally provides an array of health benefits including Vitamin C, potassium, thiamin and folate. By building on that nutritional base while preserving the great taste of our not-from-concentrate juice, we're creating products that really excite consumers.

Tropicana Twister shelf-stable juice products also posted strong volume growth of more than 30%, offering a great example of how we succeed by identifying what consumers want and giving it to them. We relaunched the brand in 1.75-liter plastic bottles, instead of smaller glass bottles, providing greater convenience and value.

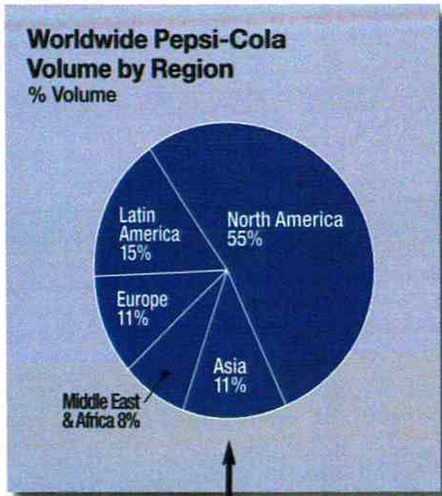

Maureen Finke, Frito-Lay; Robert Gee, Pepsi-Cola

4 Globally Diverse Portfolios

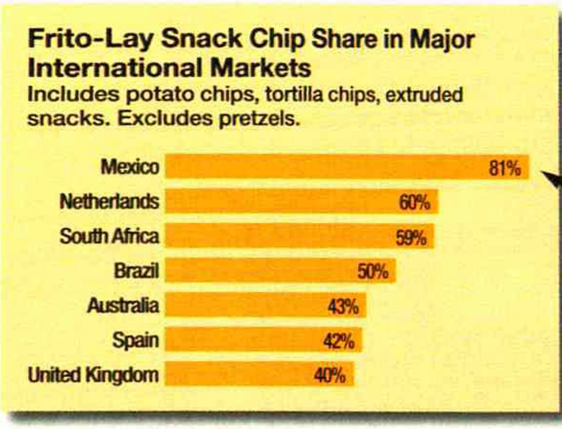
In recent years we've made important strides in diversifying our global portfolio beyond our North American roots. Today Frito-Lay operates in 42 countries and generates 32% of revenues outside North America. To step up the diversification effort and capitalize on a particularly compelling opportunity, early in 2000 we created two geographic units within our international snack business: Frito-Lay Latin America/Asia Pacific/Australia and Frito-Lay Europe/Middle East/Africa.

Pepsi-Cola reaches about 160 countries and draws 37% of its revenues from outside North America. We actually sell more of our flagship Pepsi-Cola brand outside North America than inside.

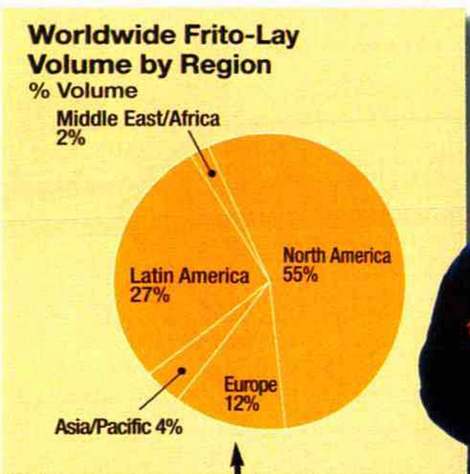
And while more than 85% of Tropicana's sales are in North America, it already has a presence in about 50 countries spanning Europe, Asia and South America.



Pepsi-Cola brands are available in some 160 countries and command the number one or two position in some 50 of these markets. Outside North America two of our largest and fastest growing businesses are in India and China, which include more than a third of the world's population.

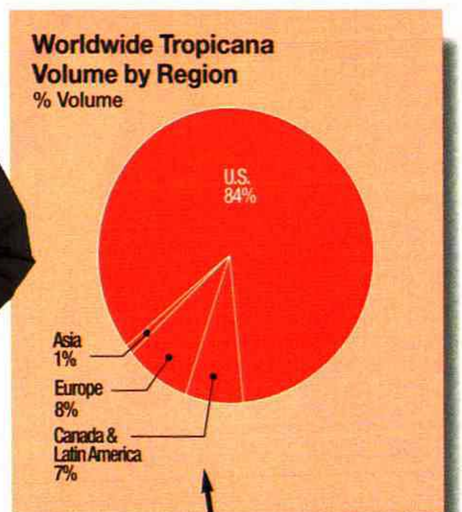


Frito-Lay is the salty snack market leader in about half the countries in which we have operations. We are using Mexico as a model for building our snack business in many other less developed markets.



Our international snack chip business grew 10%, including acquisitions and mergers. We are successfully building our global brands as well as products tailored to local tastes.

Carlos Martell, Frito-Lay; Michael C. Daly, Tropicana



We're expanding internationally. Tropicana products are available in more than 50 countries.

5 Advantaged Business Systems

The way we take our products to market gives us compelling advantages — from our product innovation capabilities to our patented manufacturing processes, to the vast scale of our manufacturing and distribution systems.

While most companies rely on third-party distributors, the bulk of our products go to market through our own (or our bottlers') "direct store distribution" systems. These systems give us great control of our business and provide clear benefits to retailers. We take our products to customers in our own trucks and even put them on the shelves. So our snacks and beverages are fresh, well displayed and handled carefully — all crucial in selling impulse foods.

Direct store distribution has always been highly profitable for retailers because it reduces the work they have to do. But it's becoming even more valuable to them as they continue to consolidate and focus on improving their bottom line. That gives us a real advantage over most competitors.

The massive scale of our systems in itself creates tremendous advantages. Frito-Lay North America, for example, can leverage productivity gains across 45 plants, more than 200 distribution centers and 15,000 sales routes. It can get a new product into nearly 470,000 retail outlets in a matter of weeks. And just imagine the purchasing power of a company that buys six billion pounds of corn and potatoes a year. In just the last four years Frito-Lay North America estimates it has generated productivity savings of nearly $500 million. That makes us not just more efficient, but more competitive. We call it "Productivity for Growth."

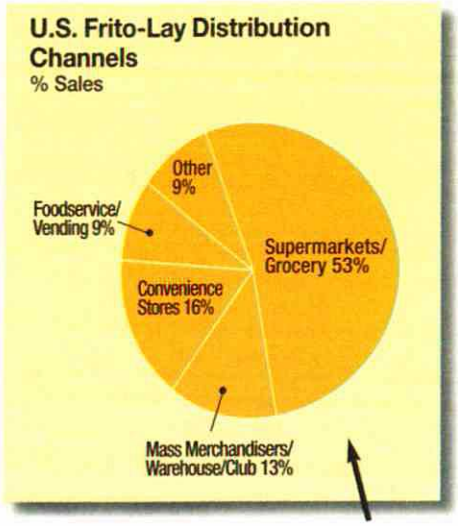
Pepsi-Cola has been building a similar scale advantage by consolidating bottling operations, particularly by forming in 1999 four very large anchor bottlers with powerful systems, broad geographic reach and the financial resources to continue expanding.

Great Leaders

So there you have it: the traits that distinguish the world's best consumer products companies. We've got them all.

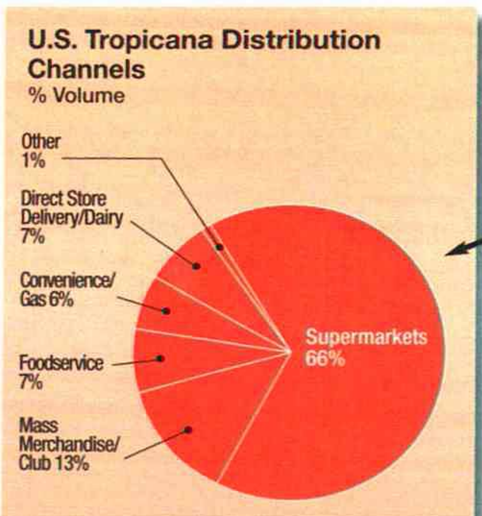
Which to me says everything about our future. We're closing in on our aspirations every day.

Of course there's one more aspect of PepsiCo that may say more about our future than anything: our wealth of great leaders. I am delighted to tell you that in 1999 our Board of Directors named Steve Reinemund president and chief operating officer of PepsiCo. A superb leader as CEO of Frito-Lay and earlier of Pizza Hut,



Frito-Lay's direct store delivery system puts product directly on store shelves, making sales more profitable for the retailer. Frito-Lay visits nearly 470,000 retail accounts each week in the U.S. and Canada.

Pepsi-Cola manufactures and sells the concentrate used in Pepsi-Cola soft drinks and oversees national marketing, advertising, new products and packaging. Our huge bottling system produces the finished product and distributes to retailers. Consumers drink over 200 million servings of Pepsi products a day.



Tropicana squeezes nearly five billion oranges and grapefruit each year to make more than one million gallons of juice every day. Refrigerated railcars and trucks transport the juice to centers where it is picked up and distributed to retailers.

Steve will contribute even more to our success in the future.

We've also added several excellent members to our board: Arthur Martinez, chairman, president and chief executive of Sears, Roebuck; Franklin Raines, chairman and chief executive of Fannie Mae; Cynthia Trudell, chairman and president of General Motors' Saturn Corporation, and Solomon Trujillo, chairman, president and chief executive of U S WEST. Each brings intelligence, perspective and experience that will benefit PepsiCo for years. Let me also offer my thanks to several departed or outgoing board members: Craig Weatherup, who stepped down from the board in 1999 when he became chairman and chief executive of The Pepsi Bottling Group, and Roy Vagelos and Arnold Weber, who will retire from the board in May 2000. Over the years they have shared their wisdom and insight and have been tireless advocates for shareholders. In the process, they have helped make this a better corporation.

So PepsiCo enters the new millennium financially strong, sharply focused on our packaged goods strengths and poised to pursue the vast and growing opportunity in convenient foods and beverages.

We'll see what the future holds. We've set some ambitious financial goals: double-digit profit growth, strong cash flow, a billion dollars a year in share repurchases and a return on invested capital that improves each year from the 20% we posted in 1999. But I believe we'll achieve those goals. They're well within our reach.

We've got so much going for us — so much promise and 116,000 terrific employees to make it happen. You can understand why I'm confident PepsiCo will earn a place among the very best of the world's premier consumer product companies.

Roger A. Enrico
Chairman of the Board and
Chief Executive Officer

Corporate Citizenship

Part of being a premier company is being a good corporate citizen. PepsiCo has a strong record of community support and corporate citizenship.

Community: PepsiCo, through the PepsiCo Foundation and its operating divisions, donated nearly $13 million to nonprofit organizations in 1999. In addition, we donated several million dollars' worth of products and services. Our efforts were noticed: In 1999, *Worth* magazine named PepsiCo to its list of the 50 "Most Generous Companies."

Suppliers: PepsiCo is a leader in supporting the development of minority and women entrepreneurs. In 1999 we bought more than $350 million worth of goods and services from minority- and women-owned suppliers. Since 1982, our Minority and Women's Business Enterprise (M/WBE) program purchases have amounted to nearly $4 billion. We've received many awards. In 1999, Pepsi-Cola was named Corporation of the Year by the New York/New Jersey Minority Purchasing Council. Frito-Lay was named Corporation of the Year by the Dallas/Fort Worth Minority Business Development Council and the North Texas Minority Entrepreneur Development Week Committee.

Employees and Business Partners: We value our people highly and strive to provide a workplace that is challenging, diverse, welcoming and fun. In 1999 *Fortune* magazine named PepsiCo to its list of "The 50 Best Companies for Asians, Blacks and Hispanics" and *Hispanic* magazine included Pepsi-Cola and Frito-Lay on its Hispanic Corporate 100 list of companies providing the best opportunities for Hispanics. In 1998, the Council on Economic Priorities named PepsiCo to its Honor Roll of companies recognized as tops in minority and women's advancement, workplace issues, family benefits, charitable giving, community outreach, environment and social disclosure. By the way, if you'd like to join us, look at the career opportunities on our website.

Environment: We're committed to being environmentally responsible and to minimizing the impact of our businesses on the Earth. We encourage conservation, recycling and energy use programs that promote clean air and water and reduce landfill. A report on our environmental commitment is available on our website.

Corporate Headquarters: If you're near our headquarters in Purchase, New York, please drop in. Our grounds are home to The Donald M. Kendall Sculpture Gardens, the vision of PepsiCo's co-founder and former chairman of the board and chief executive officer. We open them to the public to share the inspiring beauty of 45 sculptures by major twentieth century artists, all set on an ever-changing botanical canvas.

Learn More: You can visit the PepsiCo website at www.pepsico.com. *Worth* magazine's list is at www.worth.com. *Fortune* magazine is at www.fortune.com and *Hispanic* magazine's list is at www.hisp.com/janfeb99/corplist.html.

**For directions to PepsiCo headquarters write to:
Donald M. Kendall Sculpture Gardens
PepsiCo, Inc.
Purchase, NY 10577.**

Principal Divisions and Corporate Officers

(Listings include age and years of PepsiCo experience.)

Executive Offices
PepsiCo, Inc.
Purchase, NY 10577
(914) 253-2000

Co-Founder of PepsiCo, Inc.
Donald M. Kendall
Over 50 years of PepsiCo experience

Corporate Officers

Roger A. Enrico
Chairman of the Board and
Chief Executive Officer
55, 28 years

Karl M. von der Heyden
Vice Chairman of the Board
63, 9 years

Steven S Reinemund
President and Chief Operating Officer
51, 15 years

Albert P. Carey
Senior Vice President,
Sales and Retailer Strategies
48, 18 years

Tod J. MacKenzie
Senior Vice President,
Corporate Communications
42, 12 years

Matthew M. McKenna
Senior Vice President and Treasurer
49, 6 years

Margaret D. Moore
Senior Vice President, Human Resources
51, 26 years

Indra K. Nooyi
Senior Vice President and
Chief Financial Officer
44, 6 years

Lionel L. Nowell, III
Senior Vice President and Controller
45, under one year

Stephen F. Schuckenbrock
Senior Vice President,
Information Technology and
Chief Information Officer
39, 4 years

Robert F. Sharpe, Jr.
Senior Vice President, Public Affairs,
General Counsel and Secretary
48, 2 years

Principal Divisions and Officers

Pepsi-Cola Company
700 Anderson Hill Road
Purchase, NY 10577
(914) 253-2000

Pepsi-Cola North America
Gary M. Rodkin
President and Chief Executive Officer
47, 4 years

Pepsi-Cola International
Peter M. Thompson
President and Chief Executive Officer
53, 9 years

Frito-Lay Company
7701 Legacy Drive
Plano, TX 75024
(972) 334-7000

Frito-Lay North America
Abelardo E. Bru
President and Chief Executive Officer
51, 23 years

Frito-Lay Europe/Africa/ Middle East
2 Sheen Road
Richmond-upon-Thames
Surrey TW9 1AE, England

Michael D. White
President and Chief Executive Officer
48, 10 years

Frito-Lay Latin America/Asia
Pacific/Australia
Av. De las Palmas No. 735
Col. Lomas de Chapultepec
Mexico, 11000, D.F.

Rogelio M. Rebolledo
President and Chief Executive Officer
55, 23 years

Tropicana Products, Inc.
1001 13th Avenue East
Bradenton, FL 34208
(941) 747-4461

Brock H. Leach
President and Chief Executive Officer
41, 17 years

Thanks to all the employees who came out for the photos.

Frito-Lay
Victor Benoit
Andrew Brodkin
Daniel Brunner
Maria Canelstein
Douglas Castellana
Olga Caune
Sharmela Chandlall-Myrand
Rose Chin
Gregory Christou
Albert Cole, Jr.
James Collette
John DiPoalo
James Doederlein
Maxzine Drakeford
Fred Drumgold
Maureen Finke
Brian Flynn
Rudolfo Frometa
Ramon German
Levi Gonzalez
Peter Hubert
Frank Imperatore
Claudia Jarrett
Julio Jimenez
Noel Jusino
Randy Knopf
Robert Many
Carlos Martell
Greg Martin
Jim McHugh
Pat Menadier
Kevin Michaels
Daniel Moran
Barbara Morrison
Laura O'Byrne
Clinton Palmer
Jeffrey Pena
Tracy Perkins
Arley Pressley
Edward Reihing
James Rhodes
Barbara Rickert
Pablo Rodriguez
Angel Santos
Jeffrey Schnarr
Michael Smith
Jose Soto
David Wescott
George Wierwille
Jose Ynoa

Pepsi-Cola
Avishan Amanat
David Beneway
Emir Bingul
Chung Chow
Denise D'Arbonne
Kathleen Donnelly
Anne Fink
Robert Gee
Jeffrey Glidden
Theresa Gonzalez
Lisa Han
Teresa Harrington
Steve Jachzel
Barry Jacobs
Winsome Johnson
John Charles Jove
Renee Kasbar
Stephan Laroche
Kurt Linder
Susan Malfer
Bill Mutilangi
Robert Nakasone
Michael Ortiz
Peter Pappas
Dan Resman
Tess Resman
Janet Rosen
Beata Smoron
Erika Steskel
Carol Strauss
Fari Talebi
Jamilla Varghese
Diane Vazquez
Ahmad Yahya

Pepsi-Cola Bottling
Cesar Altagracia
Michele Bastone
Santo Bonanno
Jeffrey Brody
Mike Buonassisi
Sam Campagna
Paul Cecere
John Conklin
Peter Crist
Tina Delaney
Michael Freeman
Peter Gaudet
Carmine Giordano
Stuart Goldberg
Philip Granito
Joseph Guadagno
Mark Johnson
Zenil Kane
Randy Kaplan
Ron Kimmey
Joseph Klingler
Patsy Leone Jr.
Cheng Lu
Stephen Mahabir
Eunice McClamb
Terry Noschese
Antoinetta Paissides
Audra Passero
Krisann Perno
Terrence Poletti
Curtis Prestano
Patrick Recio
Edward Rodriguez
Nicholas Roechell
Chris Savva
Kimberly Schwarz
Joseph Shanken
Robert Sherman
Frederick Stoute
Anthony Torres
Tom Triglia
Antonio Vaccaro, Jr.
Lillian Vega
Juan Velez Jr.
Darryl Wilson
Peter Wilson, Sr.
William Wilson
Cheryl Winski
George Woodworth
Anthony Yozzo
Len Zaccagnino
Jack Zas
Robert Zorn

Tropicana
Doris Baglione
Trey Bonvillain
Melinda Bryant
Sam Bueti
Rita Chernayshov
Mary Chiramanaphand
Peter Chiramanaphand
Joseph Colletti
Gregory Cooper
Robert Cortino
Paul Cotter
Michael Daly
John Heitman
Joe Herzog
John Kaletsis
Robert Kollar
David McCann
Brian McGee
Maria Mendes
José Mojica
Christopher Mueller
Joan Norelli
Ken Petrocelli
Michael Ramirez
Charles Schwenzer III
Fran Whisten
Keith Woetzel
Frank Zelesnik

PepsiCo
Lorna Aaron
Maria Ayala
Ramona Barksdale
Lucille Ceo
Barbara Coles
Karen Fischer
Elaine Franklin
Jeanie Friscia
Tracey Garzione
Andrea Grasso
Christine Griff
Romaine Gunther
Ronnie Jennings
Malaika Layne
Juanita Manning
Jennifer Mayer
Sarah McGill
Karen Munz
Mary Catherine O'Neill
Kevin Paquet
Eva Rossman
Pam Thomas
Kristy Williams
Angela Wright
Peter Zagrobelny

PepsiCo, Inc. Board of Directors

(Listings include age and year elected PepsiCo director.)

Left to right:
Ray L. Hunt, Robert E. Allen,
Steven S Reinemund,
Franklin D. Raines

Left to right:
John F. Akers,
Karl M. von der Heyden,
Sharon Percy Rockefeller,
Peter Foy

Left to right:
Arnold R. Weber, Solomon D. Trujillo,
Cynthia M. Trudell, Roger A. Enrico,
P. Roy Vagelos

Left to right:
Franklin A. Thomas, John J. Murphy,
Arthur C. Martinez

John F. Akers
Former Chairman of the Board and
Chief Executive Officer
International Business Machines
65. Elected 1991.

Robert E. Allen
Former Chairman of the Board and
Chief Executive Officer, AT&T Corp.
65. Elected 1990.

Roger A. Enrico
Chairman of the Board and
Chief Executive Officer, PepsiCo, Inc.
55. Elected 1987.

Peter Foy
Former Chairman
Baring Brothers International Ltd.
59. Elected 1997.

Ray L. Hunt
Chairman and Chief Executive Officer
Hunt Oil Company and
Chairman, Chief Executive Officer and
President, Hunt Consolidated, Inc.
56. Elected 1996.

Arthur C. Martinez
Chairman, President and
Chief Executive Officer
Sears, Roebuck and Co.
60. Elected 1999.

John J. Murphy
Former Chairman of the Board and
Chief Executive Officer
Dresser Industries
68. Elected 1984.

Franklin D. Raines
Chairman and Chief Executive Officer
Fannie Mae
51. Elected 1999.

Steven S Reinemund
President and Chief Operating Officer
PepsiCo, Inc.
51. Elected 1996.

Sharon Percy Rockefeller
President and Chief Executive Officer
WETA Public Stations, Washington, D.C.
55. Elected 1986.

Franklin A. Thomas
Consultant, TFF Study Group
65. Elected 1994.

Cynthia M. Trudell
Vice President, General Motors and
Chairman and President, Saturn
Corporation
46. Elected 2000.

Solomon D. Trujillo
Chairman, President and Chief
Executive Officer, U S WEST, Inc.
48. Elected 2000.

P. Roy Vagelos
Former Chairman of the Board and
Chief Executive Officer, Merck & Co., Inc.
70. Elected 1992.

Karl M. von der Heyden
Vice Chairman, PepsiCo, Inc.
63. Elected 1996.

Arnold R. Weber
President Emeritus
Northwestern University
70. Elected 1978.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(tabular dollars in millions except per share amounts; all per share amounts assume dilution)

Introduction

Management's Discussion and Analysis is presented in four sections. The Introductory section discusses Bottling Transactions, Acquisitions, Market Risk (including the EURO conversion), Year 2000, Asset Impairment and Restructuring Charges and a New Accounting Standard (pages 13-16). The second section analyzes the Results of Operations, first on a consolidated basis and then for each of our business segments (pages 16-21). The final two sections address our Consolidated Cash Flows and Liquidity and Capital Resources (page 22).

Cautionary Statements

From time to time, in written reports (including the Chairman's letter accompanying this annual report) and in oral statements, we discuss expectations regarding our future performance, the impact of the EURO conversion and the impact of current global macro-economic issues. These "forward-looking statements" are based on currently available competitive, financial and economic data and our operating plans. They are inherently uncertain, and investors must recognize that events could turn out to be significantly different from expectations.

Bottling Transactions

During 1999, we completed four transactions creating four anchor bottlers. In April, certain wholly-owned bottling businesses, referred to as The Pepsi Bottling Group (PBG), completed an initial public offering with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. In May, we combined certain bottling operations with Whitman Corporation to create new Whitman, retaining a noncontrolling ownership interest of approximately 38%. In July, we formed a business venture with PepCom Industries, Inc., a Pepsi-Cola franchisee, retaining a noncontrolling interest in the venture of 35%. In October, we formed a business venture with Pohlad Companies, a Pepsi-Cola franchisee, retaining a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary. Details of these transactions are found in Note 2.

Acquisitions

During 1999, we made acquisitions, primarily investments in various bottlers including investments in unconsolidated affiliates, which aggregated $430 million in cash.

During 1998, acquisitions aggregated $4.5 billion in cash including Tropicana Products, Inc. for $3.3 billion and The Smith's Snackfoods Company (TSSC) in Australia for $270 million, the remaining ownership interest in various bottlers and purchases of various other international salty snack food businesses.

The results of operations of acquisitions are generally included in the consolidated financial statements from their respective dates of acquisition.

Market Risk

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are:

- commodity prices, affecting the cost of our raw materials,
- foreign exchange risks, and
- interest rates on our debt and short-term investment portfolios.

Commodity Prices

We are subject to market risk with respect to the cost of commodities because our ability to recover increased costs through higher pricing may be limited by the competitive environment in which we operate. We use futures contracts to hedge fluctuations in prices of a portion of anticipated commodity purchases, primarily oil, corn, fuel and juice concentrates. We had commodity futures positions of $145 million at December 25, 1999 and $105 million at December 26, 1998. Unrealized losses on net commodity futures positions were $6 million at December 25, 1999 and $9 million at December 26, 1998. We estimate that a 10% decline in commodity prices would have increased the 1999 unrealized losses by $14 million and the 1998 unrealized losses by $9 million.

Foreign Exchange Risks

Operating in international markets involves exposure to volatile movements in foreign exchange rates. The economic impact of foreign exchange rate movements on us is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, can cause us to adjust our financing and operating strategies. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors.

International operations constitute about 19% of our 1999 and 19% of our 1998 consolidated operating profit, excluding asset impairment and restructuring charges. As foreign exchange rates change, translation of the income statements of our international businesses into U.S. dollars affects year-over-year comparability of operating results. We do not generally hedge translation risks because cash flows from international operations are generally reinvested locally. We do not enter into hedges to minimize volatility of reported earnings because we do not believe it is justified by the exposure or the cost.

Changes in foreign exchange rates that would have the largest impact on translating our international operating profit for 1999 include the Mexican peso, British pound, EURO and Canadian dollar. We estimate that a 10% change in foreign exchange rates would impact operating profit by approximately $60 million in 1999 and $51 million in 1998. This represents 10% of our non-U.S. operating profit after adjusting for asset impairment and restructuring charges. We believe that this quantitative measure has inherent limitations, as discussed in the first paragraph of this section. Further, the sensitivity analysis disregards the possibility that rates can move in opposite directions and that gains from one country may or may not be offset by losses from another country.

Foreign exchange gains and losses reflect transaction gains and losses and also translation gains and losses arising from the remeasurement into U.S. dollars of the net monetary assets of businesses in highly inflationary countries. Transaction gains and losses arise from monetary assets and liabilities denominated in currencies other than a business unit's functional currency. There were net foreign exchange losses of $10 million in 1999, $53 million in 1998 and $16 million in 1997. The decrease in net foreign exchange losses in 1999 resulted primarily from the impact in 1998 of unfavorable macro-economic conditions, primarily in Russia and Asia Pacific.

In 1998, the economic turmoil in Russia which accompanied the devaluation of the ruble had an adverse impact on our operations. Consequently, we experienced a significant drop in demand, resulting in lower net sales and increased operating losses. Also, since net bottling sales in Russia were denominated in rubles, whereas a substantial portion of our related costs and expenses were denominated in U.S. dollars, bottling operating margins were further eroded. In response to these conditions, we reduced our cost structure primarily by closing facilities, renegotiating manufacturing contracts and reducing the number of employees. We also wrote down our long-lived bottling assets to give effect to the resulting impairment. See "Asset Impairment and Restructuring Charges" on page 15.

On January 1, 1999, 11 of 15 member countries of the European Union fixed conversion rates between their existing currencies (legacy currencies) and one common currency – the EURO. The EURO trades on currency exchanges and may be used in business transactions. Conversion to the EURO eliminated currency exchange rate risk between the member countries. Beginning in January 2002, new EURO-denominated bills and coins will be issued, and legacy currencies will be withdrawn from circulation. Our operating subsidiaries affected by the EURO conversion have established plans to address the issues raised by the EURO currency conversion. These issues include, among others, the need to adapt computer and financial systems, business processes and equipment, such as vending machines, to accommodate EURO-denominated transactions and the impact of one common currency on pricing. Since financial systems and processes currently accommodate multiple currencies, the plans contemplate conversion by the middle of 2001 if not already addressed in conjunction with other system or process initiatives. We do not expect the system and equipment conversion costs to be material. Due to numerous uncertainties, we cannot reasonably estimate the long-term effects one common currency will have on pricing and the resulting impact, if any, on financial condition or results of operations.

Interest Rates

We centrally manage our debt and investment portfolios considering investment opportunities and risks, tax consequences and overall financing strategies.

We use interest rate and currency swaps to effectively change the interest rate and currency of specific debt issuances, with the objective of reducing our overall borrowing costs. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is offset by the opposite market impact on the related debt.

Our investment portfolios primarily consist of cash equivalents and short-term marketable securities. Accordingly, the carrying amounts approximate market value. It is our practice to hold these investments to maturity.

Assuming year-end 1999 and 1998 variable rate debt and investment levels, a one-point increase in interest rates would have increased net interest expense by $13 million in 1999 and $64 million in 1998. The change in this impact from 1998 resulted from decreased variable rate debt levels and increased variable rate investment levels at year-end 1999. This sensitivity analysis does not take into account existing interest rate swaps.

Year 2000

To date, neither we nor our franchise bottlers have experienced major disruptions related to the Year 2000 date change. In addition, we are not aware of significant Year 2000 disruptions impacting our customers or suppliers. We will continue to monitor our critical systems over the next several months but do not anticipate a significant impact as a result of the Year 2000 date change.

Incremental costs directly related to Year 2000 issues for new PepsiCo totaled $110 million from 1998 to 2000. Approximately 26% of the total estimated spending represents costs to repair systems while approximately 53% represents costs to replace and rewrite software. Excluded from the estimated incremental costs for new PepsiCo for the three-year period are approximately $29 million of internal recurring costs related to our Year 2000 efforts.

Asset Impairment and Restructuring Charges

	1999	1998	1997
Asset impairment charges			
Held and used in the business			
Property, plant and equipment	**$ 8**	$ 149	$ 5
Intangible assets	**–**	37	–
Other assets	**–**	14	–
Held for disposal/abandonment			
Property, plant and equipment	**29**	54	111
Investments in unconsolidated affiliates	**–**	–	21
Net assets of business units	**–**	–	63
Total asset impairment	**37**	254	200
Restructuring charges			
Employee related costs	**19**	24	55
Other charges	**9**	10	35
Total restructuring	**28**	34	90
Total	**$ 65**	$ 288	$ 290
After-tax	**$ 40**	$ 261	$ 239
Per share	**$ 0.03**	$0.17	$ 0.15
Impairment by segment			
Frito-Lay North America	**$ 37**	$ 54	$ 8
Frito-Lay International	**–**	–	30
Pepsi-Cola North America	**–**	–	52
Pepsi-Cola International	**–**	6	105
Combined segments	**37**	60	195
Bottling operations	**–**	194	5
	$ 37	$ 254	$ 200

1999

The 1999 asset impairment and restructuring charge of $65 million recognized in the first quarter relates to the closure of three plants and impairment of equipment at Frito-Lay North America. This charge was the second phase of a productivity improvement plan developed in the fourth quarter of 1998. The plan included the consolidation of U.S. production to newer and more efficient plants and streamlining logistics and transportation systems. The restructuring is expected to generate approximately $15 million in annual savings beginning in 2000 which we expect to reinvest back into the business.

The asset impairment charges primarily reflect the reduction in the carrying value of the land and buildings to their estimated fair market value based on current selling prices for comparable real estate, less costs to sell, and the write off of the net book value of equipment which cannot be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of $28 million primarily included severance costs for approximately 860 employees and plant closing costs. Substantially all of the terminations occurred during 1999.

1998

The 1998 asset impairment and restructuring charges of $288 million were comprised of the following:

- A charge of $218 million for asset impairment of $200 million and restructuring charges of $18 million related to our Russian bottling operations. The economic turmoil in Russia which accompanied the August 1998 devaluation of the ruble adversely impacted our operations. Consequently, we experienced a significant drop in demand, resulting in lower net sales and increased operating losses. Also, since net bottling sales in Russia were denominated in rubles, whereas a substantial portion of our related costs and expenses were denominated in U.S. dollars, bottling operating margins were further eroded. In response to these conditions, we reduced our cost structure primarily through closing facilities, renegotiating manufacturing contracts and reducing the number of employees. We also evaluated our long-lived bottling assets for impairment, triggered by the reduction in utilization of assets caused by the lower demand, the adverse change in the business climate and the expected continuation of operating losses and cash deficits in that market. The impairment charge reduced the net book value of the assets to their estimated fair market value, based primarily on amounts recently paid for similar assets in that marketplace. Of the total charge of $218 million, $212 million related to bottling operations that became part of PBG in 1999 (see "Bottling Transactions" on page 13).
- An impairment charge of $54 million related to manufacturing equipment at Frito-Lay North America. As part of our annual assessment of marketing plans and related capacity requirements at Frito-Lay North America and the development of a program to improve manufacturing productivity, we determined that certain product specific equipment would not be utilized and certain capital projects would be terminated to avoid production redundancies. The charge primarily reflected the write off of the net book value of the equipment and related projects. Disposal or abandonment of these assets was completed in 1999.
- A charge of $16 million for employee related costs resulting from the separation of Pepsi-Cola North America's concentrate and bottling organizations to more effectively serve retail customers in light of the conversion of PBG to public ownership (see "Bottling Transactions" on page 13). Of this amount, $10 million related to bottling operations that became part of PBG in 1999.

The employee related costs for 1998 of $24 million primarily included severance and relocation costs for approximately 2,700 employees located in the Russian bottling plants and at Pepsi-Cola North America field locations. During 1998, approximately 2,600 of the terminations occurred most of which were terminations of part-time employees with little associated cost. The remaining terminations either occurred in 1999 or related to the bottling operations that became part of PBG in 1999.

1997

The 1997 asset impairment and restructuring charges of $290 million were comprised of the following:

- Net charges of $183 million in several of our business segments for net asset impairment of $150 million related to the planned disposal of assets and for restructuring charges of $33 million. The impairment charges were taken as a result of decisions to dispose of certain company-owned bottling operations and non-core international businesses, to dispose of certain assets to improve the utilization of facilities and to reduce occupancy costs and to exit certain bottling joint ventures. The impairment charges reduced the net book value of these assets to their estimated fair market value, generally based on estimates developed internally or, if available, amounts paid for similar assets, less costs to sell. The disposals occurred in 1997 and 1998 and in connection with the separation of certain company-owned bottling operations (see "Bottling Transactions" on page 13). The restructuring charges primarily related to the reorganization of an international company-owned bottling operation.
- Charges of $94 million for asset impairment of $48 million and restructuring charges of $46 million related to productivity initiatives in worldwide snacks. These initiatives included closing plants, eliminating production lines and consolidating distribution facilities. The resulting impairment charges were recognized primarily for assets held for disposal or abandonment and reduced the net book value of impaired assets to their estimated fair market value, generally based on estimates developed internally or, if available, amounts paid for similar assets, less costs to sell. Disposal or abandonment of these assets was substantially completed in 1997, with a significant portion of the remainder completed in 1998 as planned.
- Net charges of $13 million for net asset impairment of $2 million and net restructuring charges of $11 million related to actions to strengthen our international bottling structure. Restructuring charges of $98 million consisted of third party termination payments related to refranchising bottling operations and our investments in bottling joint ventures. These charges were substantially offset by an arbitration settlement of $87 million which we were awarded as a result of the termination of the bottling appointment with our previous Venezuelan bottler.

The employee related costs for 1997 of $55 million primarily included severance and relocation costs for approximately 2,100 employees primarily located in international plants and distribution centers. During 1997, terminations of approximately 1,100 employees occurred and, in 1998, approximately 500 terminations occurred. As a result of the successful redeployment of employees to other locations, approximately 500 terminations did not occur as planned which resulted in a change of estimate in 1998.

The restructuring reserves are included in accounts payable and other current liabilities in the Consolidated Balance Sheet. At year-end 1999, the remaining liability for 1997 restructuring charges associated with investments in unconsolidated affiliates was $10 million related to indemnifications of litigation liabilities.

The remaining carrying amounts of assets held for disposal at year end were $6 million in 1999, $13 million in 1998 and $60 million in 1997. The net sales from international bottling business units held for disposal were $202 million in 1998 and $590 million in 1997. Such businesses generated operating profits of $20 million in 1998 and $42 million in 1997. Our investments in unconsolidated affiliates held for disposal provided break-even results in 1999 and losses of $2 million in 1998 and $5 million in 1997.

New Accounting Standard

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.* SFAS 133, as amended by SFAS 137, is effective for our fiscal year beginning 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. We are currently assessing the effects of adopting SFAS 133 and have not yet made a determination of the impact adoption will have on our consolidated financial statements.

Results of Operations

Consolidated Review

General

In the discussions below, the year-over-year dollar change in pound or kilo sales of salty and sweet snacks for Frito-Lay, bottler case sales by company-owned bottling operations and concentrate unit sales to franchisees for Pepsi-Cola, and four-gallon equivalent cases for Tropicana is referred to as *volume.* Price changes over the prior year and the impact of product, package and country sales mix changes are referred to as *effective net pricing.*

The combined results of our five reportable segments are referred to as new PepsiCo.

Net Sales

				% Change B/(W)	
	1999	1998	1997	**1999**	1998
Reported	**$20,367**	$22,348	$20,917	**(9)**	7
New PepsiCo	**$18,244**	$14,686	$13,655	**24**	8
Intercompany elimination*	**422**	1,614	1,462	**(74)**	10
New PepsiCo before elimination	**$18,666**	$16,300	$15,117	**15**	8

*Reflects intercompany concentrate sales between Pepsi-Cola North America and Pepsi-Cola International and those previously consolidated bottling operations in which we now own an equity interest.

Reported net sales decreased $2.0 billion in 1999 reflecting the deconsolidation of PBG, PBO and PepCom operations as of the transaction closing dates, partially offset by the inclusion of Tropicana for the first three quarters of 1999. New PepsiCo net sales, before the intercompany elimination, increased $2.4 billion. This increase primarily reflects the inclusion of Tropicana for the first three quarters of 1999, volume gains at worldwide Frito-Lay and higher effective net pricing at worldwide Frito-Lay and Pepsi-Cola North America. Volume gains contributed 4 percentage points of growth and higher effective pricing contributed 3 percentage points. These advances were partially offset by an unfavorable foreign currency impact. The unfavorable foreign currency impact, primarily in Brazil and Mexico, reduced new PepsiCo net sales growth by nearly 2 percentage points.

Reported net sales rose $1.4 billion in 1998. New PepsiCo net sales, before intercompany elimination, increased $1.2 billion. This increase reflects volume gains in all businesses, net contributions from acquisitions/divestitures and higher effective net pricing driven by a shift to higher-priced products in Frito-Lay North America. Volume gains contributed 5 percentage points of growth. Net acquisitions/divestitures contributed 3 percentage points to the sales growth and primarily reflect the acquisition of Tropicana partially offset by the absence of bottling sales as a result of refranchising a Japanese bottler late in 1997. Excluding foreign currency impact, new PepsiCo net sales would have risen 9%. Weaker foreign currencies primarily in Canada, Thailand, Brazil, Poland and India led the unfavorable foreign currency impact.

Operating Profit and Margin

				Change B/(W)	
	1999	1998	1997	**1999**	1998
Reported					
Total Operating Profit	**$2,818**	$2,584	$2,662	**9%**	(3)%
Total Operating Profit Margin	**13.8%**	11.6%	12.7%	**2.2**	(1.1)
Ongoing					
New PepsiCo Operating Profit	**$2,830**	$2,526	$2,519	**12%**	–
New PepsiCo Operating Profit Margin*	**15.2%**	15.5%	16.7%	**(0.3)**	(1.2)

Ongoing excludes impairment and restructuring charges of $65, $66 and $267 in 1999, 1998 and 1997, respectively (see Notes 4 and 18).

*Based on new PepsiCo net sales before intercompany elimination.

Reported operating profit margin increased 2.2 percentage points in 1999. Ongoing new PepsiCo operating profit margin declined 0.3 percentage point. The decline reflects the margin impact of the Tropicana acquisition for the first three quarters, increased general and administrative (G&A) expenses and increased advertising and marketing (A&M) expenses across all business segments. These decreases were partially offset by the margin impact of higher effective net pricing.

The most significant G&A increase in 1999 was corporate G&A which includes $71 million related to the start-up, project management, development and installation of a shared services program. The shared services program will provide common system capabilities, data management and data processing across North America and Continental Europe. The increase in A&M was led by increases in promotional allowances at Frito-Lay North America, bottler funding and other programs at Pepsi-Cola North America and spending at Frito-Lay International's U.K. business.

In 1998, reported operating profit margin decreased over 1 percentage point. Ongoing new PepsiCo operating profit margin declined over 1 percentage point, primarily reflecting the margin impact of increased A&M, higher cost of sales and increased selling and distribution expenses, partially offset by the impact of volume growth. A&M grew at a significantly faster rate than sales, led by increases at worldwide Pepsi-Cola and increases at Frito-Lay North America. Cost of sales as a percentage of sales increased due to costs associated with new plants and lines at Frito-Lay North America. Selling and distribution (S&D) expense growth at Frito-Lay North America reflected an increase in the sales force. Excluding foreign exchange losses, ongoing operating profit would have increased 1%. Foreign exchange losses, primarily in Asia, are reported in corporate unallocated expenses. Information technology expense increased on a year-over-year basis, despite $42 million of software costs that were capitalized as required by SOP 98-1, driven by our various productivity initiatives and Year 2000 remediation efforts.

Gain on Bottling Transactions

The gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.18 per share) relates to the second quarter PBG and Whitman bottling transactions. The PBG transaction resulted in a pre-tax gain of $1.0 billion ($476 million after-tax or $0.32 per share) in the second quarter consistent with our policy for gain recognition upon the issuance of stock by a subsidiary. The majority of the taxes are expected to be deferred indefinitely. The Whitman transaction resulted in an after-tax loss to us of $206 million or $0.14 per share.

The third quarter PepCom transaction was accounted for as a nonmonetary exchange for book purposes. A portion of the transaction was taxable which resulted in income tax expense of $25 million or $0.02 per share.

The fourth quarter Pohlad transaction was structured as a fair value exchange with no resulting gain or loss.

Interest Expense, net

Interest expense, net of interest income, declined $76 million or 24% in 1999. Interest income increased $44 million or 59% primarily due to higher average investment balances, partially offset by lower average interest rates on these balances. The higher average investment balances primarily result from the first quarter proceeds received from PBG as settlement of pre-existing intercompany balances. Interest expense decreased $32 million or 8% due to lower average interest rates on slightly lower average outstanding debt levels.

Interest expense, net of interest income, declined $32 million or 9% in 1998. The decline in interest expense of $83 million or 17% was primarily due to lower average debt levels, as a result of using cash flows received from discontinued operations in the latter half of 1997 to repay debt. The lower debt levels were maintained until the end of the third quarter when the debt level increased to finance several acquisitions (see "Acquisitions" on page 13). This decline was partially offset by higher average interest rates on the remaining debt. Interest income declined $51 million or 41% reflecting lower investment levels as a result of utilizing investment balances to make acquisitions and repay debt.

Provision for Income Taxes

	1999	1998	1997
Reported			
Provision for Income Taxes	**$1,606**	$270	$818
Effective tax rate	**43.9%**	11.9%	35.4%
Ongoing			
Provision for Income Taxes	**$ 876**	$791	$869
Effective tax rate	**32.2%**	31.0%	33.4%

Ongoing excludes the effects of the bottling transactions in 1999, impairment and restructuring charges for all years (see Note 4) and the 1998 income tax benefit (see Note 14).

In 1999, the reported effective tax rate increased 32 percentage points primarily as a result of the tax effects of the bottling transactions and the absence in 1999 of the 1998 income tax benefit. The ongoing effective tax rate increased 1.2 percentage point. The increase resulted primarily from the absence in 1999 of the settlement in 1998 of prior years' audit issues offset by the benefit of proportionately lower bottling income.

In 1998, the reported effective tax rate decreased 23.5 percentage points primarily as a result of an income tax benefit of $494 million (or $0.32 per share). The tax benefit reflects a final agreement with the Internal Revenue Service to settle substantially all remaining aspects of a tax case relating to our concentrate operations in Puerto Rico. The ongoing effective tax rate declined 2.4 percentage points attributable to the favorable settlement of prior years' audit issues, including issues related to the deductibility of purchased franchise rights.

Income from Continuing Operations and Income Per Share

				% Change B/(W)	
	1999	1998	1997	**1999**	1998
Income from Continuing Operations					
Reported	**$2,050**	$1,993	$1,491	**3**	34
Ongoing	**$1,845**	$1,760	$1,730	**5**	2
Income Per Share from Continuing Operations					
Reported	**$ 1.37**	$ 1.31	$ 0.95	**5**	38
Ongoing	**$ 1.23**	$ 1.16	$ 1.10	**6**	5

Ongoing excludes the effects of the bottling transactions in 1999, impairment and restructuring charges for all years (see Note 4) and the 1998 income tax benefit (see Note 14).

For 1999, reported income from continuing operations increased $57 million while income per share increased $0.06. Ongoing income from continuing operations increased $85 million and income per share increased $0.07. The ongoing increases are due to increased operating profit, a decrease in net interest expense and, for income per share, the benefit from a 1.5% reduction in average shares outstanding. These were partially offset by a higher effective tax rate.

For 1998, reported income from continuing operations increased $502 million while income per share increased $0.36. Ongoing income from continuing operations increased $30 million and income per share increased $0.06. The ongoing increases are due to the lower effective tax rate and, for income per share, the benefit from a 3% reduction in average shares outstanding. These were partially offset by lower operating profit.

Net Income and Net Income Per Share

For 1997, net income of $2.1 billion and income per share of $1.36 include the results of income from discontinued operations, which primarily reflect the operating results of Tricon's core restaurant businesses through October 6, 1997 and the operating results and a gain on sale of the restaurant distribution operation sold in the second quarter of 1997.

Business Segments

Additional information concerning our operating segments is presented in Note 18.

Frito-Lay

The standard volume measure is pounds for North America and kilos for International. Pound and kilo growth are reported on a systemwide and constant territory basis, which includes currently consolidated businesses and unconsolidated affiliates reported for at least one year.

Frito-Lay North America

				% Change B/(W)	
	1999	1998	1997	**1999**	1998
Net Sales	**$7,865**	$7,474	$6,967	**5**	7
Operating Profit					
Reported	**$1,580**	$1,424	$1,388	**11**	3
Ongoing	**$1,645**	$1,478	$1,410	**11**	5

Ongoing excludes impairment and restructuring charges of $65 in 1999, $54 in 1998 and $22 in 1997 (see Notes 4 and 18).

1999 vs. 1998

Net sales grew $391 million due to volume gains and higher effective net pricing.

Pound volume advanced 4%. The advance was led by high single-digit growth in our core corn products, excluding the low-fat and no-fat versions, mid single-digit growth in Lay's brand potato chips and significant growth in Cracker Jack brand products and branded dips. Volume declines in our "WOW!", "Baked" Lay's and "Baked" Tostitos brand products partially offset these gains.

Reported operating profit increased $156 million. Ongoing operating profit increased $167 million reflecting the higher volume, higher effective net pricing and reduced commodity costs, partially offset by higher A&M expenses. A&M grew at a faster rate than sales due primarily to increased promotional allowances.

Ongoing operating profit margin increased over 1 percentage point due to the margin impact of higher effective net pricing, reduced commodity costs and volume gains, partially offset by the margin impact of higher A&M expenses.

1998 vs. 1997

Net sales grew $507 million due to increased volume and a favorable mix shift to higher-priced products.

Pound volume advanced 5% led by core brand growth and "WOW!" products. The growth in core brands, excluding the low-fat and no-fat versions, was led by double-digit growth in Lay's brand potato chips and double-digit growth in Doritos brand tortilla chips. These gains were partially offset by declines in Ruffles brand potato chips, "Baked" Lay's and "Baked" Tostitos brand products and the elimination of Doritos Reduced Fat brand tortilla chips.

Reported operating profit increased $36 million. Ongoing operating profit increased $68 million reflecting the higher volume and the favorable mix shift, partially offset by increased operating costs. The increase in operating costs was led by increased A&M, higher manufacturing costs, reflecting costs associated with new plants and lines related to "WOW!" and Doritos 3-D products, and higher S&D expenses. A&M grew at a significantly faster rate than sales and volume due to increased promotional allowances and "WOW!" launch costs. S&D grew at a slightly slower rate than sales but faster than volume.

Frito-Lay International

				% Change B/(W)	
	1999	1998	1997	**1999**	1998
Net Sales	**$3,750**	$3,501	$3,409	**7**	3
Operating Profit					
Reported	**$ 406**	$ 367	$ 318	**11**	15
Ongoing	**$ 406**	$ 367	$ 380	**11**	(3)

Ongoing excludes impairment and restructuring charges of $62 in 1997 (see Notes 4 and 18).

1999 vs. 1998

Net sales increased $249 million. Excluding the negative impact of Brazil, which was primarily due to macro-economic conditions, net sales increased $397 million or 13% reflecting higher volume and higher effective net pricing. Overall, the higher effective net pricing more than offset the net impact of weaker currencies outside of Brazil. The unfavorable foreign currency impact, primarily in Mexico, reduced net sales growth by 4 percentage points. Net contributions from acquisitions/divestitures contributed 1 percentage point to the sales growth.

Salty snack kilos increased 6%. The advance was led by double-digit growth at Sabritas in Mexico and several of our businesses in Central and South America and in Asia. Including acquisitions/divestitures, total salty snack kilos increased an additional 4 percentage points to 10% driven primarily by the acquisition in Australia and by acquisitions and mergers of salty snack food businesses in South America. Sweet snack kilos increased 6% led by strong growth at Gamesa and Sabritas in Mexico. Sweet snack kilos, including the net effect of acquisitions/divestitures, declined 5% primarily as a result of the sales of our chocolate and biscuit businesses in Poland.

Operating profit increased $39 million. Excluding Brazil, operating profit increased $81 million or 25% driven by strong performances at Sabritas, Gamesa and several of our businesses in Asia. The net impact of weaker foreign currencies outside of Brazil, primarily in Mexico and the United Kingdom, reduced operating profit growth by 5 percentage points. The unfavorable foreign currency impact was more than offset by higher effective net pricing.

1998 vs. 1997

Net sales increased $92 million. The increase in net sales was driven by net contributions from acquisitions/divestitures and by higher volume. The increase was partially offset by the impact of weaker foreign currencies including the unfavorable effect in Mexico of the devaluation of the peso against the U.S. dollar net of local pricing actions. Excluding Mexico, the impact of weaker foreign currencies, primarily Brazil, Poland, Australia and Thailand, reduced net sales growth by 2 percentage points. Net acquisitions/divestitures contributed 3 percentage points to the sales growth.

Salty snack kilos increased 6%, led by solid double-digit growth at Sabritas in Mexico and the Snack Ventures Europe joint venture, partially offset by double-digit declines in Brazil. Including acquisitions/divestitures, salty snack kilos increased to 14%. The increase of 8 percentage points was primarily driven by the acquisitions through partnership with, as well as, purchase of salty snack food businesses in Central and South America. Sweet snack kilos declined 2% driven by a single-digit decline at Gamesa in Mexico and a double-digit decline at Wedel in Poland. These declines in sweet snack kilos were partially offset by double-digit growth at Sabritas. Sweet snack kilos, including the effect of acquisitions/divestitures, declined 8% primarily as a result of the first quarter sale of a French biscuit business.

Reported operating profit increased $49 million. Ongoing operating profit declined $13 million. Deterioration of operating performance in Brazil due to the macro-economic conditions and market softness at Gamesa was partially offset by growth at Sabritas and in Poland. The growth in Poland was substantially driven by the sweet snack businesses which were sold in early 1999.

Pepsi-Cola

In early 1999, in contemplation of the separation from PepsiCo of our bottling operations, we completed a reorganization of our Pepsi-Cola business. Accordingly, our 1999 disclosure presents the operating results consistent with the new Pepsi-Cola organization. Prior years' amounts have been reclassified to conform to the 1999 presentation. For additional information see Note 18. The discussion that follows presents net sales prior to the elimination of intercompany concentrate sales between Pepsi-Cola North America and Pepsi-Cola International and those previously consolidated bottling operations in which we now own an equity interest.

System bottler case sales (BCS) represents PepsiCo-owned brands as well as brands that we have been granted the right to produce, distribute and market nationally and are sold by system bottlers.

Pepsi-Cola North America

				% Change B/(W)	
	1999	1998	1997	**1999**	1998
Net Sales	**$3,005**	$2,912	$2,727	**3**	7
Intercompany elimination	**(400)**	(1,523)	(1,383)	**74**	(10)
Reported	**$2,605**	$1,389	$1,344	**88**	3
Operating Profit					
Reported	**$ 751**	$ 732	$ 755	**3**	(3)
Ongoing	**$ 751**	$ 738	$ 807	**2**	(9)

Ongoing excludes impairment and restructuring charges of $6 in 1998 and $52 in 1997 (see Notes 4 and 18).

1999 vs. 1998

Reported net sales increased $1.2 billion, primarily due to the decrease in the intercompany elimination of concentrate sales resulting from the deconsolidation of the PBG, PBO and PepCom bottling operations. Before the elimination, net sales increased $93 million reflecting higher concentrate pricing net of increased customer support and increased royalty income associated with Aquafina bottled water.

BCS increased nearly 2% led by Pepsi One, introduced late last year, mid single-digit growth of our Mountain Dew brand and strong double-digit growth of our Aquafina brand of bottled water. These gains were partially offset by single-digit declines in Pepsi and Diet Pepsi brands. Concentrate shipments were even with prior year.

Reported operating profit increased $19 million. Ongoing operating profit increased $13 million primarily reflecting the increase in the net benefit of the higher pricing and the increased royalty income. These increases were partially offset by higher fountain related costs, increased A&M spending related to bottler funding and other programs and higher G&A costs as a result of costs associated with building our concentrate company infrastructure.

1998 vs. 1997

Reported net sales increased $45 million. Before the elimination of intercompany concentrate sales, net sales increased $185 million primarily reflecting higher concentrate volume.

BCS increased 6%, led by the strong single-digit growth of the Mountain Dew brand, contributions from Pepsi One and strong double-digit growth of Aquafina bottled water and Lipton Brisk. Pepsi and Diet Pepsi brands also contributed to the growth, both advancing at single-digit rates. Concentrate shipments increased 5%.

Reported operating profit decreased $23 million. Ongoing operating profit decreased $69 million primarily due to planned increases in A&M and higher G&A costs. These increases were partially offset by the increased concentrate volume. A&M expenses grew faster than sales and volume reflecting new product launches, such as Pepsi One, and planned increases for Project Globe and Pop Culture promotions. G&A costs grew due to higher costs associated with building our fountain infrastructure.

Pepsi-Cola International

	1999	1998	1997	% Change B/(W) 1999	% Change B/(W) 1998
Net Sales	**$1,793**	$1,691	$2,014	**6**	(16)
Intercompany elimination	**(22)**	(91)	(79)	**76**	(15)
Reported	**$1,771**	$1,600	$1,935	**11**	(17)
Operating Profit					
Reported	**$ 108**	$ 99	$ (67)	**9**	NM
Ongoing	**$ 108**	$ 105	$ 64	**3**	64

Ongoing excludes impairment and restructuring charges of $6 in 1998 and $131 in 1997 (see Notes 4 and 18).
NM – Not meaningful.

1999 vs. 1998

Reported net sales increased $171 million which includes the decrease in the intercompany elimination resulting from the deconsolidation of PBG and PBO bottling operations. Before the elimination of intercompany concentrate sales, net sales increased $102 million. This advance reflects net contributions from acquisitions/divestitures, higher volume and higher effective net pricing, partially offset by a net unfavorable foreign currency impact. The net unfavorable foreign currency impact, primarily in Brazil, Mexico, India and Germany, reduced net sales by 3 percentage points.

BCS increased 1% primarily reflecting double-digit growth in China, strong double-digit growth in Germany, Japan and Pakistan, and single-digit growth in India and Saudi Arabia. These advances were partially offset by lower BCS in Brazil, Russia, the Philippines and Thailand. Through December total concentrate shipments to franchisees, including those former wholly-owned bottlers in which we now own an equity interest, increased 2% while their BCS increased at a slower rate.

Reported operating profit increased $9 million. Ongoing operating profit increased $3 million reflecting volume gains and higher effective net pricing. These gains were reduced by higher A&M, net losses from acquisitions/divestitures and unfavorable foreign currency impact.

1998 vs. 1997

Reported net sales decreased $335 million. Before the elimination of intercompany concentrate sales, net sales decreased $323 million. This decline was primarily due to the absence of Japan bottling sales in 1998 as a result of the refranchising of our Japanese bottler late in 1997 and net unfavorable foreign currency impact, partially offset by higher volume. The net unfavorable foreign currency impact, primarily in Thailand and India, reduced net sales by 2 percentage points.

BCS increased 6% reflecting double-digit growth in Mexico, the Philippines, India, Pakistan and China. In addition, BCS grew at a high double-digit rate in Venezuela reflecting the continued momentum by the joint venture as it increased its territories and capacity. These advances were partially offset by lower BCS in Japan due to the elimination of certain PepsiCo-owned brands by the new bottler Suntory. The PepsiCo-owned brands that continued to be sold by Suntory grew at a double-digit rate. Total concentrate shipments to franchisees, including those former wholly-owned bottlers in which we now own an equity interest, increased 6% while their BCS increased at a slightly higher rate.

Reported operating profit increased $166 million. Ongoing operating profit increased $41 million reflecting higher volume gains (reported by most of our business units) and lower G&A expenses, due in part to savings from our 1996 restructuring. These gains were partially reduced by higher A&M.

Tropicana

The standard measure of volume is four-gallon equivalent cases.

In its first full year as part of PepsiCo, net sales were $2.25 billion and operating profit was $170 million for 1999. For the period August 26, 1998 (the date of acquisition) through December 26, 1998, net sales were $722 million and operating profit was $40 million. This 18 week period in 1998 was reported in the fourth quarter and, therefore, is not comparable to the 16 week fourth quarter of 1999. Including the impact of the additional two weeks in 1998, net sales decreased 2% and operating profit increased 35%. On a comparable 16 week basis, net sales and operating profit increased 10% and 55%, respectively. Volume for the fiscal year 1999 increased 4%, led by an 8% increase in Tropicana Pure Premium worldwide. Higher pricing taken to offset increases in the cost of oranges, combined with volume growth, drove 1999 operating performance.

Consolidated Cash Flows

1999 vs. 1998

Our 1999 consolidated cash and cash equivalents increased $653 million compared to a $1.6 billion decrease in 1998. The change primarily reflects a decrease in cash outflows for acquisitions and investments in unconsolidated affiliates as compared to 1998, which included the acquisition of Tropicana, and lower share repurchase activity in 1999. In addition, cash and cash equivalents increased as a result of net proceeds from long-term debt financings in 1999 primarily related to the PBG separation, versus net payments in 1998. These comparative increases were partially offset by net payments of short-term borrowings in 1999, primarily funded from amounts received from PBG, versus net short-term borrowings in 1998 and the comparative impact of net maturities of short-term investments in 1998.

1998 vs. 1997

Our 1998 consolidated cash and cash equivalents decreased $1.6 billion compared to a $1.6 billion increase in 1997. Excluding cash provided by discontinued operations in 1997, the decrease in cash and cash equivalents was $1.6 billion in 1998 compared with a $4.6 billion decrease in 1997. The change in cash flow primarily reflects net proceeds from issuance of debt and the liquidation of investment portfolios in 1998 compared to net debt repayments in 1997. These cash inflows were primarily used to fund acquisitions and investments in unconsolidated affiliates during the year. The acquisitions and investments in unconsolidated affiliates include the purchases of Tropicana, the remaining ownership interest in various bottlers, TSSC and various other international salty snack food businesses.

Share Repurchases

Our share repurchase activity was as follows:

(in millions)	1999	1998	1997
Cost	**$1,285**	$2,230	$2,459
Shares repurchased			
Number of shares	**35.8**	59.2	69.0
% of shares outstanding at beginning of year	**2.4%**	3.9%	4.5%

The current authorization for share repurchases granted by our Board of Directors is $3 billion over the three year period from 1999 to 2001.

Liquidity and Capital Resources

We reduced our revolving credit facilities to $1.5 billion in 1999. Of the $4.75 billion as of year-end 1998, $3.1 billion expired March 26, 1999 and was not renewed due to our reduced borrowing needs. The remaining $1.65 billion was cancelled on June 18, 1999 and replaced with a $600 million facility expiring in June of 2000 and a $900 million facility expiring in June of 2004. At expiration, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions. The credit facilities exist largely to support issuances of short-term debt and remain unused at year-end 1999. At year-end 1999, $900 million of short-term borrowings were reclassified as long-term, reflecting our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings.

As discussed in Note 2, our Board of Directors approved a plan in 1998 for the separation from PepsiCo of PBG. PBG completed an IPO on April 6, 1999. In February and March of 1999, in preparation for the IPO, PBG and its principal operating subsidiary, Bottling Group, LLC, incurred $6.55 billion of indebtedness. Of the $6.55 billion, $3.25 billion was repaid by PBG with the proceeds of the IPO and the issuance of long-term debt. PepsiCo has unconditionally guaranteed $2.3 billion of Bottling Group, LLC long-term debt. During the first quarter, we received $5.5 billion of the debt proceeds obtained by PBG primarily as settlement of pre-existing intercompany amounts due to us. These proceeds were used to repay our short-term borrowings and for share repurchases.

The Whitman transaction, completed on May 20, 1999, generated net cash proceeds of $300 million.

The deconsolidation of the PBG, PBO and PepCom operations resulted in declines in current assets, intangible assets, property, plant and equipment, net, current liabilities, long-term debt and deferred income taxes, and an increase in investments in unconsolidated affiliates.

Our strong cash-generating capability and financial condition give us ready access to capital markets throughout the world.

CONSOLIDATED STATEMENT OF INCOME

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 25, 1999, December 26, 1998 and December 27, 1997

	1999	1998	1997
Net Sales			
New PepsiCo	$18,244	$14,686	$13,655
Bottling operations	2,123	7,662	7,262
Total Net Sales	20,367	22,348	20,917
Costs and Expenses			
Cost of sales	8,198	9,330	8,525
Selling, general and administrative expenses	9,103	9,924	9,241
Amortization of intangible assets	183	222	199
Impairment and restructuring charges	65	288	290
Total Costs and Expenses	17,549	19,764	18,255
Operating Profit			
New PepsiCo	2,765	2,460	2,252
Bottling operations and equity investments	53	124	410
Total Operating Profit	2,818	2,584	2,662
Bottling equity income, net	83	–	–
Gain on bottling transactions	1,000	–	–
Interest expense	(363)	(395)	(478)
Interest income	118	74	125
Income from Continuing Operations Before Income Taxes	3,656	2,263	2,309
Provision for Income Taxes	1,606	270	818
Income from Continuing Operations	2,050	1,993	1,491
Income from Discontinued Operations, net of tax	–	–	651
Net Income	$ 2,050	$ 1,993	$ 2,142
Income Per Share – Basic			
Continuing Operations	$ 1.40	$ 1.35	$ 0.98
Discontinued Operations	–	–	0.42
Net Income	$ 1.40	$ 1.35	$ 1.40
Average shares outstanding	1,466	1,480	1,528
Income Per Share – Assuming Dilution			
Continuing Operations	$ 1.37	$ 1.31	$ 0.95
Discontinued Operations	–	–	0.41
Net Income	$ 1.37	$ 1.31	$ 1.36
Average shares outstanding	1,496	1,519	1,570

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 25, 1999, December 26, 1998 and December 27, 1997

	1999	1998	1997
Operating Activities			
Income from continuing operations	**$ 2,050**	$ 1,993	$ 1,491
Adjustments to reconcile income from continuing operations to net cash provided by operating activities			
Gain on bottling transactions	**(1,000)**	–	–
Bottling equity income, net	**(83)**	–	–
Depreciation and amortization	**1,032**	1,234	1,106
Noncash portion of 1998 income tax benefit	**–**	(259)	–
Noncash portion of impairment and restructuring charges	**37**	254	233
Deferred income taxes	**529**	150	51
Other noncash charges and credits, net	**364**	237	342
Changes in operating working capital, excluding effects of acquisitions and dispositions			
Accounts and notes receivable	**(149)**	(104)	(53)
Inventories	**(186)**	29	79
Prepaid expenses and other current assets	**(203)**	(12)	(56)
Accounts payable and other current liabilities	**310**	(195)	84
Income taxes payable	**326**	(116)	142
Net change in operating working capital	**98**	(398)	196
Net Cash Provided by Operating Activities	**3,027**	3,211	3,419
Investing Activities			
Capital spending	**(1,118)**	(1,405)	(1,506)
Acquisitions and investments in unconsolidated affiliates	**(430)**	(4,537)	(119)
Sales of businesses	**499**	17	221
Sales of property, plant and equipment	**126**	134	80
Short-term investments, by original maturity			
More than three months-purchases	**(2,025)**	(525)	(92)
More than three months-maturities	**2,008**	584	177
Three months or less, net	**12**	839	(735)
Other, net	**(144)**	(126)	(96)
Net Cash Used for Investing Activities	**(1,072)**	(5,019)	(2,070)
Financing Activities			
Proceeds from issuances of long-term debt	**3,480**	990	–
Payments of long-term debt	**(1,123)**	(2,277)	(1,875)
Short-term borrowings, by original maturity			
More than three months-proceeds	**3,691**	2,713	146
More than three months-payments	**(2,741)**	(417)	(177)
Three months or less, net	**(2,856)**	1,753	(1,269)
Cash dividends paid	**(778)**	(757)	(736)
Share repurchases	**(1,285)**	(2,230)	(2,459)
Proceeds from exercises of stock options	**308**	415	403
Other, net	**–**	–	5
Net Cash (Used for) Provided by Financing Activities	**(1,304)**	190	(5,962)
Net Cash Provided by Discontinued Operations	**–**	–	6,236
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**2**	1	(2)
Net Increase (Decrease) in Cash and Cash Equivalents	**653**	(1,617)	1,621
Cash and Cash Equivalents – Beginning of Year	**311**	1,928	307
Cash and Cash Equivalents – End of Year	**$ 964**	$ 311	$ 1,928
Supplemental Cash Flow Information			
Interest paid	**$ 321**	$ 367	$ 462
Income taxes paid	**$ 525**	$ 521	$ 696
Schedule of Noncash Investing and Financing Activities			
Fair value of assets acquired	**$ 717**	$ 5,359	$ 160
Cash paid and stock issued	**(438)**	(4,537)	(134)
Liabilities assumed	**$ 279**	$ 822	$ 26

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

(in millions except per share amounts)
PepsiCo, Inc. and Subsidiaries
December 25, 1999 and December 26, 1998

	1999	1998
ASSETS		
Current Assets		
Cash and cash equivalents	$ 964	$ 311
Short-term investments, at cost	92	83
	1,056	394
Accounts and notes receivable, net	1,704	2,453
Inventories	899	1,016
Prepaid expenses and other current assets	514	499
Total Current Assets	4,173	4,362
Property, Plant and Equipment, net	5,266	7,318
Intangible Assets, net	4,735	8,996
Investments in Unconsolidated Affiliates	2,846	1,396
Other Assets	531	588
Total Assets	$17,551	$ 22,660
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Short-term borrowings	$ 233	$ 3,921
Accounts payable and other current liabilities	3,399	3,870
Income taxes payable	156	123
Total Current Liabilities	3,788	7,914
Long-Term Debt	2,812	4,028
Other Liabilities	2,861	2,314
Deferred Income Taxes	1,209	2,003
Shareholders' Equity		
Capital Stock, par value 1 2/3¢ per share: authorized 3,600 shares, issued 1,726 shares	29	29
Capital in excess of par value	1,081	1,166
Retained earnings	14,066	12,800
Accumulated other comprehensive loss	(989)	(1,059)
	14,187	12,936
Less: repurchased shares, at cost: 271 shares in 1999 and 255 shares in 1998	(7,306)	(6,535)
Total Shareholders' Equity	6,881	6,401
Total Liabilities and Shareholders' Equity	$17,551	$ 22,660

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in millions)
PepsiCo, Inc. and Subsidiaries
Fiscal years ended December 25, 1999, December 26, 1998 and December 27, 1997

	Capital Stock									
	Issued		Repurchased							
	Shares	Amount	Shares	Amount	Net Outstanding Shares	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Total Currency Translation Adjustment
Shareholders' Equity, December 28, 1996	1,726	$29	(181)	$(3,023)	1,545	$1,201	$ 9,184	$(768)	$6,623	$(768)
1997 Net income	–	–	–	–	–	–	2,142	–	2,142	
Currency translation adjustment	–	–	–	–	–	–	–	(220)	(220)	(220)
Comprehensive income									1,922	
Cash dividends declared	–	–	–	–	–	–	(746)	–	(746)	
Share repurchases	–	–	(69)	(2,459)	(69)	–	–	–	(2,459)	
Stock option exercises, including tax benefit	–	–	25	488	25	88	–	–	576	
Spin-off of restaurant businesses	–	–	–	–	–	–	987	–	987	
Other	–	–	1	8	1	25	–	–	33	
Shareholders' Equity, December 27, 1997	1,726	29	(224)	(4,986)	1,502	1,314	11,567	(988)	6,936	(988)
1998 Net income	–	–	–	–	–	–	1,993	–	1,993	
Currency translation adjustment	–	–	–	–	–	–	–	(75)	(75)	(75)
CTA reclassification adjustment	–	–	–	–	–	–	–	24	24	24
Minimum pension liability adjustment (net of tax benefit of $11)	–	–	–	–	–	–	–	(20)	(20)	
Comprehensive income									1,922	
Cash dividends declared	–	–	–	–	–	–	(760)	–	(760)	
Share repurchases	–	–	(59)	(2,230)	(59)	–	–	–	(2,230)	
Stock option exercises, including tax benefit	–	–	28	675	28	(151)	–	–	524	
Other	–	–	–	6	–	3	–	–	9	
Shareholders' Equity, December 26, 1998	1,726	29	(255)	(6,535)	1,471	1,166	12,800	(1,059)	6,401	(1,039)
1999 Net income	**–**	**–**	**–**	**–**	**–**	**–**	**2,050**	**–**	**2,050**	
Currency translation adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(121)**	**(121)**	**(121)**
CTA reclassification adjustment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**175**	**175**	**175**
Minimum pension liability adjustment (net of tax of $9)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17**	**17**	
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**	
Comprehensive income									**2,120**	
Cash dividends declared	**–**	**–**	**–**	**–**	**–**	**–**	**(784)**	**–**	**(784)**	
Share repurchases	**–**	**–**	**(36)**	**(1,285)**	**(36)**	**–**	**–**	**–**	**(1,285)**	
Stock option exercises, including tax benefit	**–**	**–**	**20**	**514**	**20**	**(131)**	**–**	**–**	**383**	
Other	**–**	**–**	**–**	**–**	**–**	**46**	**–**	**–**	**46**	
Shareholders' Equity, December 25, 1999	**1,726**	**$29**	**(271)**	**$(7,306)**	**1,455**	**$1,081**	**$14,066**	**$(989)**	**$6,881**	**$(985)**

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(tabular dollars in millions except per share amounts; all per share amounts assume dilution)

Note 1 – Summary of Significant Accounting Policies

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Items Affecting Comparability

Certain reclassifications were made to the 1998 and 1997 amounts to conform to the 1999 presentation, particularly the segment reclassifications resulting from the 1999 reorganization of our Pepsi-Cola business described in Note 18. As a result of the 1999 bottling transactions described in Note 2, certain bottling operations that were previously consolidated are now accounted for under the equity method. Therefore, the consolidated financial statements subsequent to the bottling transactions are not comparable to the consolidated financial statements presented for prior periods. In addition, the third quarter 1998 acquisition of Tropicana described in Note 3 affects comparability.

Principles of Consolidation

The financial statements include the consolidated accounts of PepsiCo, Inc. and its controlled affiliates. Intercompany balances and transactions have been eliminated. Investments in unconsolidated affiliates, over which we exercise significant influence, but not control, are accounted for by the equity method. Accordingly, our share of the net income or loss of such unconsolidated affiliates is included in consolidated net income.

Issuances of Subsidiary Stock

The issuance of stock by one of our subsidiaries to third parties reduces our proportionate ownership interest in the subsidiary. Unless the issuance of such stock is part of a broader corporate reorganization, we recognize a gain or loss, equal to the difference between the issuance price per share and our carrying amount per share. Such gain or loss, net of the related tax, is recognized in consolidated net income when the transaction occurs.

Revenue Recognition

We recognize revenue when products are delivered to customers. Sales terms generally do not allow a right to return.

Marketing Costs

Marketing costs are reported in selling, general and administrative expenses and include costs of advertising and other marketing activities. Advertising expenses were $1.8 billion in 1999, $1.9 billion in 1998 and $1.8 billion in 1997. Deferred advertising expense, classified as prepaid expenses in the Consolidated Balance Sheet, was $30 million in 1999 and $34 million in 1998. Deferred advertising costs are expensed in the year first used and consist of:

- media and personal service prepayments,
- promotional materials in inventory, and
- production costs of future media advertising.

Stock-Based Compensation

We measure stock-based compensation cost as the excess of the quoted market price of PepsiCo Capital Stock at the grant date over the amount the employee must pay for the stock (exercise price). Our policy is to generally grant stock options with an exercise price equal to the stock price at the date of grant and accordingly, no compensation cost is recognized. Under our incentive programs, compensation cost for performance share units granted and for cash payments expected to be paid to employees in lieu of stock options is based on the grant date value and recognized over the vesting period of the award.

Derivative Instruments

The interest differential to be paid or received on an interest rate swap is recognized as an adjustment to interest expense as the differential occurs. If an interest rate swap position were to be terminated, the gain or loss realized upon termination would be deferred and amortized to interest expense over the remaining term of the underlying debt instrument it was intended to modify. However, if the underlying debt instrument were to be settled prior to maturity, the gain or loss realized upon termination would be recognized immediately.

The differential to be paid or received on a currency swap related to non-U.S. dollar denominated debt is charged or credited to selling, general and administrative expenses as the differential occurs. This is fully offset by the corresponding gain or loss recognized on the currency translation of the debt, as both amounts are based upon the same exchange rates. The currency differential not yet settled in cash is reflected in the Consolidated Balance Sheet under the appropriate current or noncurrent receivable or payable caption. If a currency swap position were to be terminated prior to maturity, the gain or loss realized upon termination would be immediately recognized in selling, general and administrative expenses.

Gains and losses on futures contracts designated as hedges of future commodity purchases are deferred in the Consolidated Balance Sheet under the appropriate current asset or liability caption and included in the cost of the hedged commodity when purchased. Changes in the value of such contracts used to hedge commodity purchases are highly correlated to the changes in the value of the purchased commodity. Subsequent changes in the value of such contracts that cease to be highly correlated or changes in the value of futures contracts not designated as hedges would be recognized in cost of sales immediately. If a futures contract designated as a hedge were to be terminated, the gain or loss realized upon termination would be included in the cost of the hedged commodity when purchased.

Prepaid forward contracts for the purchase of PepsiCo Capital Stock are reflected in the Consolidated Balance Sheet at fair value as a prepaid expense. Changes in fair value of these contracts are recognized as interest expense.

The cash flows related to the above derivative instruments are classified in the Consolidated Statement of Cash Flows in a manner consistent with those of the transactions being hedged.

Cash Equivalents

Cash equivalents represent funds temporarily invested with original maturities of three months or less. All other investment portfolios are primarily classified as short-term investments.

Inventories

Inventories are valued at the lower of cost (computed on the average, first-in, first-out or last-in, first-out method) or net realizable value.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated on a straight-line basis. Buildings and improvements are depreciated over their estimated useful lives, generally ranging from 20 to 50 years. Machinery and equipment (including fleet) are depreciated over their estimated useful lives, generally ranging from 2 to 10 years.

Intangible Assets

Goodwill, the excess of our investments in unconsolidated affiliates over our equity in the underlying assets of these investments, and reacquired franchise rights are amortized on a straight-line basis over their estimated useful lives, generally ranging from 20 to 40 years. Trademarks and other identifiable intangibles are amortized on a straight-line basis over their estimated useful lives, generally ranging from 20 to 40 years.

Recoverability of Long-Lived Assets to be Held and Used in the Business

All long-lived assets, including goodwill, investments in unconsolidated affiliates and other identifiable intangibles, are evaluated for impairment on the basis of undiscounted cash flows whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impaired asset is written down to its estimated fair market value based on the best information available. Estimated fair market value is generally measured by discounting estimated future cash flows. Considerable management judgment is necessary to estimate discounted future cash flows.

The depreciation or amortization periods for long-lived assets to be held and used are periodically evaluated to determine whether events or circumstances have occurred that warrant revision.

Accounting Changes

As of December 28, 1997, we adopted Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, issued by The American Institute of Certified Public Accountants in March 1998. The amount capitalized under the SOP was $52 million in 1999 and $42 million in 1998.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities.* SFAS 133, as amended by SFAS 137, is effective for our fiscal year beginning 2001. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that we recognize all derivative instruments as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. We are currently assessing the effects of adopting SFAS 133, and have not yet made a determination of the impact adoption will have on our consolidated financial statements.

Note 2 – Investments in Unconsolidated Affiliates

Investments in Unconsolidated Affiliates

In 1998, our Board of Directors approved a plan for the separation from PepsiCo of certain wholly-owned bottling businesses located in the United States, Canada, Spain, Greece and Russia, referred to as The Pepsi Bottling Group (PBG). On April 6, 1999, PBG completed the sale of 100 million shares of its common stock at $23 per share through an initial public offering with PepsiCo retaining a direct noncontrolling ownership interest of 35.5%. During the first quarter, we received $5.5 billion of debt proceeds obtained by PBG primarily as settlement of pre-existing intercompany amounts due to us. We recognized a pre-tax gain of $1.0 billion ($476 million after-tax or $0.32 per share) in the second quarter.

On May 20, 1999, we combined certain bottling operations in the midwestern United States and Central Europe (PBO) with the Whitman Corporation, a publicly traded corporation, to create new Whitman. We retained a noncontrolling ownership interest of approximately 38% in new Whitman. The transaction resulted in an after-tax loss to PepsiCo of $206 million or $0.14 per share.

On July 10, 1999, we formed a business venture with PepCom Industries, Inc., a Pepsi-Cola franchisee, combining bottling businesses in parts of North Carolina and New York. PepCom contributed bottling operations in central and eastern North Carolina and in Long Island, New York to the venture. We contributed our bottling operations in Winston-Salem and Wilmington, North Carolina in exchange for a noncontrolling interest in the venture, Pepsi Bottling Ventures LLC, of 35%. The transaction was accounted for as a nonmonetary exchange for book purposes. A portion of the transaction was taxable which resulted in income tax expense of $25 million or $0.02 per share.

On October 15, 1999, we formed a business venture with Pohlad Companies, a Pepsi-Cola franchisee, combining bottling businesses in Puerto Rico and parts of the southeastern and midwestern United States. Pohlad Companies contributed its interests in Dakota Beverage Company, Delta Beverage Group, Inc. (Delta) and Pepsi-Cola Puerto Rico Bottling Company (PPR). We contributed our interests in Delta and PPR as well as 2.2 million shares of PepsiCo Capital Stock in exchange for a 33% noncontrolling interest in the venture. As a result, we have a noncontrolling ownership interest of approximately 24% in the venture's principal operating subsidiary, PepsiAmericas, Inc., a publicly traded corporation. The Pohlad transaction was structured as a fair value exchange with no resulting gain or loss.

Pepsi Bottling Group

The Pepsi Bottling Group, Inc. is the world's largest manufacturer, distributor and seller of carbonated and non-carbonated Pepsi-Cola beverages and operates under master bottling agreements with us. In addition to approximately 37% of PBG's outstanding common stock that we now own, we own 100% of PBG's class B common stock and approximately 7% of the equity of Bottling Group, LLC, PBG's principal operating subsidiary. This gives us economic ownership of approximately 40% of PBG's combined operations. We account for our investment using the equity method.

PBG's summarized full year 1999 and 1998 financial information is as follows:

	1999	1998
Current assets	$1,493	$1,318
Noncurrent assets	6,126	6,004
Total assets	$7,619	$7,322
Current liabilities	$ 947	$1,025
Noncurrent liabilities	4,831	6,535
Minority interest	278	–
Total liabilities	$6,056	$7,560
Our equity investment	$ 829	$ –

	1999	1998	1997
Net sales	$7,505	$7,041	$6,592
Gross profit	$3,209	$2,860	$2,760
Operating profit	$ 412	$ 55	$ 335
Net income (loss)	$ 118	$ (146)	$ 59

The net assets transferred to PBG as of April 6, 1999, primarily consisted of the following:

	1999
Property, plant and equipment, net	$2,106
Goodwill, net	$1,097
Reacquired franchise rights and other intangibles, net	$2,734
Long-term debt	$3,306
Deferred income taxes	$1,218

Based upon the quoted closing price of PBG shares at year-end 1999, the calculated market value of our direct investment in PBG, excluding our investment in Bottling Group, LLC, was approximately $887 million.

Whitman

Whitman manufactures, distributes and sells carbonated and non-carbonated Pepsi-Cola beverages and operates under master bottling agreements with us. We now own approximately 40% of Whitman common stock and account for our investment using the equity method.

Whitman's summarized full year 1999 financial information is as follows:

	1999
Current assets	$ 538
Noncurrent assets	2,326
Total assets	$2,864
Current liabilities	$ 739
Noncurrent liabilities	983
Total liabilities	$1,722
Our equity investment	$ 668

	1999
Net sales	$2,138
Gross profit	$ 890
Operating profit	$ 182
Income from continuing operations	$ 43
Net loss	$ (9)

Comparable prior year information for Whitman is not available.

The excess of our investment in new Whitman over our equity in the underlying net assets, net of amortization, was approximately $234 million at year-end 1999. Based upon the quoted closing price of Whitman shares at year-end 1999, the calculated market value of our investment in Whitman was approximately $740 million.

Other Equity Investments

Summarized financial information, in the aggregate, regarding our principal equity investments, other than PBG and Whitman, follows. Information is presented in the aggregate and generally from the acquisition date.

	1999	1998
Current assets	$1,173	$ 901
Noncurrent assets	2,539	2,037
Total assets	$3,712	$2,938
Current liabilities	$1,168	$1,125
Noncurrent liabilities	664	170
Minority interest	36	–
Total liabilities	$1,868	$1,295
Our related equity investments	$1,054	$ 768

	1999	1998	1997
Net sales	$3,754	$3,071	$2,713
Gross profit	$1,721	$1,360	$1,242
Operating profit	$ 89	$ 101	$ 166
Net (loss) income	$ (10)	$ 22	$ 103

Related Party Transactions

Our significant related party transactions involve our investments in unconsolidated bottling affiliates. We sell concentrate to these affiliates that is used in the production of carbonated soft drinks and non-carbonated beverages. They purchase sweeteners and certain other raw materials through us. The raw material purchases on behalf of these bottling affiliates, related payments to suppliers and collections from the bottlers are not reflected in our consolidated financial statements. We also provide certain administrative and other services to these bottling affiliates under negotiated fee arrangements.

Further, because we share a business objective with these bottling affiliates of increasing the availability and consumption of Pepsi-Cola beverages, we provide various forms of marketing support to or on behalf of them to promote our beverages. This

support covers a variety of initiatives, including marketplace support, marketing programs, capital equipment investment and shared media expense. Based on the objective of the programs and initiatives, we record marketing support as an adjustment to net revenues or as selling, general and administrative expense.

These transactions with our unconsolidated bottling affiliates are reflected in the Consolidated Statement of Income as follows:

	1999	1998	1997
Net revenues	**$1,779**	$576	$538
Selling, general and administrative expenses	**$ 554**	$169	$153

As of December 25, 1999, the receivables from these bottling affiliates are $93 million and payables to these affiliates are $131 million. Such amounts are settled in terms consistent with other trade receivable and payable terms. See Note 13 regarding our guarantee of PBG related debt.

Note 3 – Acquisitions

During 1999, we made acquisitions, primarily investments in various bottlers including investments in unconsolidated affiliates, which aggregated $430 million in cash.

During 1998, we completed the acquisitions of Tropicana Products, Inc. from The Seagram Company Ltd. for $3.3 billion in cash and The Smith's Snackfoods Company (TSSC) in Australia from United Biscuits Holdings plc for $270 million in cash. In addition during 1998, acquisitions and investments in unconsolidated affiliates included the remaining ownership interest in various bottlers and purchases of various other international salty snack food businesses. Acquisitions for 1998 aggregated $4.5 billion in cash.

The results of operations of acquisitions are generally included in the consolidated financial statements from their respective dates of acquisition. The acquisitions were accounted for under the purchase method. The purchase prices have been allocated based on the estimated fair value of the assets acquired and liabilities assumed. The excess purchase prices over the fair values of the net assets acquired of approximately $310 million in 1999 and $3.2 billion in 1998 were allocated to goodwill.

Unaudited Tropicana Pro Forma

The following table presents the unaudited pro forma combined results of PepsiCo and Tropicana as if the acquisition had occurred at the beginning of our fiscal years 1998 and 1997. The aggregate impact of other acquisitions in these periods was not material to our net sales, income or income per share from continuing operations.

	Unaudited	
	1998	1997
Net sales	$ 23,674	$ 22,851
Income from continuing operations	$ 1,939	$ 1,427
Income per share from continuing operations	$ 1.28	$ 0.91

The pro forma amounts include the amortization of the goodwill arising from the allocation of the purchase price and interest expense on the debt issued to finance the purchase. The pro forma information does not necessarily present what the combined results would have been for these periods and is not intended to be indicative of future results.

Note 4 – Asset Impairment and Restructuring

	1999	1998	1997
Asset impairment charges			
Held and used in the business			
Property, plant and equipment	**$ 8**	$ 149	$ 5
Intangible assets	**–**	37	–
Other assets	**–**	14	–
Held for disposal/abandonment			
Property, plant and equipment	**29**	54	111
Investments in unconsolidated affiliates	**–**	–	21
Net assets of business units	**–**	–	63
Total asset impairment	**37**	254	200
Restructuring charges			
Employee related costs	**19**	24	55
Other charges	**9**	10	35
Total restructuring	**28**	34	90
Total	**$ 65**	$ 288	$ 290
After-tax	**$ 40**	$ 261	$ 239
Per share	**$0.03**	$0.17	$0.15
Impairment by segment			
Frito-Lay North America	**$ 37**	$ 54	$ 8
Frito-Lay International	**–**	–	30
Pepsi-Cola North America	**–**	–	52
Pepsi-Cola International	**–**	6	105
Combined segments	**37**	60	195
Bottling operations	**–**	194	5
	$ 37	$ 254	$ 200

1999

The 1999 asset impairment and restructuring charge of $65 million recognized in the first quarter relates to the closure of three plants and impairment of equipment at Frito-Lay North America. This charge was the second phase of a productivity improvement plan developed in the fourth quarter of 1998. The plan included the consolidation of U.S. production to newer and more efficient plants and streamlining logistics and transportation systems.

The asset impairment charges primarily reflect the reduction in the carrying value of the land and buildings to their estimated fair market value based on current selling prices for comparable real estate, less costs to sell, and the write off of the net book value of equipment which cannot be redeployed. The plant closures were completed during 1999. The majority of these assets were either disposed of or abandoned in 1999. The restructuring charges of $28 million primarily included severance costs for approximately 860 employees and plant closing costs. Substantially all of the terminations occurred during 1999.

1998

The 1998 asset impairment and restructuring charges of $288 million were comprised of the following:

- A charge of $218 million for asset impairment of $200 million and restructuring charges of $18 million related to our Russian bottling operations. The economic turmoil in Russia which accompanied the August 1998 devaluation of the ruble adversely impacted our operations. Consequently, we experienced a significant drop in demand, resulting in lower net sales and increased operating losses. Also, since net bottling sales in Russia were denominated in rubles, whereas a substantial portion of our related costs and expenses were denominated in U.S. dollars, bottling operating margins were further eroded. In response to these conditions, we reduced our cost structure primarily through closing facilities, renegotiating manufacturing contracts and reducing the number of employees. We also evaluated our long-lived bottling assets for impairment, triggered by the reduction in utilization of assets caused by the lower demand, the adverse change in the business climate and the expected continuation of operating losses and cash deficits in that market. The impairment charge reduced the net book value of the assets to their estimated fair market value, based primarily on amounts recently paid for similar assets in that marketplace. Of the total charge of $218 million, $212 million related to bottling operations that became part of PBG in 1999 (see Note 2).
- An impairment charge of $54 million related to manufacturing equipment at Frito-Lay North America. As part of our annual assessment of marketing plans and related capacity requirements at Frito-Lay North America and the development of a program to improve manufacturing productivity, we determined that certain product specific equipment would not be utilized and certain capital projects would be terminated to avoid production redundancies. The charge primarily reflected the write off of the net book value of the equipment and related projects. Disposal or abandonment of these assets was completed in 1999.
- A charge of $16 million for employee related costs resulting from the separation of Pepsi-Cola North America's concentrate and bottling organizations to more effectively serve retail customers in light of the conversion of PBG to public ownership (see Note 2). Of this amount, $10 million related to bottling operations that became part of PBG in 1999.

The employee related costs for 1998 of $24 million primarily included severance and relocation costs for approximately 2,700 employees located in the Russian bottling plants and at Pepsi-Cola North America field locations. During 1998, approximately 2,600 of the terminations occurred most of which were terminations of part-time employees with little associated cost. The remaining terminations either occurred in 1999 or related to the bottling operations that became part of PBG in 1999.

1997

The 1997 asset impairment and restructuring charges of $290 million were comprised of the following:

- Net charges of $183 million in several of our business segments for net asset impairment of $150 million related to the planned disposal of assets and for restructuring charges of $33 million. The impairment charges were taken as a result of decisions to dispose of certain company-owned bottling operations and non-core international businesses, to dispose of certain assets to improve the utilization of facilities and to reduce occupancy costs and to exit certain bottling joint ventures. The impairment charges reduced the net book value of these assets to their estimated fair market value, generally based on estimates developed internally or, if available, amounts paid for similar assets, less costs to sell. The disposals occurred in 1997 and 1998 and in connection with the separation of certain company-owned bottling operations (see Note 2). The restructuring charges primarily related to the reorganization of an international company-owned bottling operation.
- Charges of $94 million for asset impairment of $48 million and restructuring charges of $46 million related to productivity initiatives in worldwide snacks. These initiatives included closing plants, eliminating production lines and consolidating distribution facilities. The resulting impairment charges were recognized primarily for assets held for disposal or abandonment and reduced the net book value of impaired assets to their estimated fair market value, generally based on estimates developed internally or, if available, amounts paid for similar assets, less costs to sell. Disposal or abandonment of these assets was substantially completed in 1997, with a significant portion of the remainder completed in 1998 as planned.
- Net charges of $13 million for net asset impairment of $2 million and net restructuring charges of $11 million related to actions to strengthen our international bottling structure. Restructuring charges of $98 million consisted of third party termination payments related to refranchising bottling operations and our investments in bottling joint ventures. These charges were substantially offset by an arbitration settlement of $87 million which we were awarded as a result of the termination of the bottling appointment with our previous Venezuelan bottler.

The employee related costs for 1997 of $55 million primarily included severance and relocation costs for approximately 2,100 employees primarily located in international plants and distribution centers. During 1997, terminations of approximately 1,100 employees occurred and, in 1998, approximately 500 terminations occurred. As a result of the successful redeployment of employees to other locations, approximately 500 terminations did not occur as planned which resulted in a change of estimate in 1998.

Analysis of restructuring reserve for total PepsiCo:

	Employee Related	Facility Closure	Third Party Termination	Other	Total
Reserve, December 28, 1996	$ 95	$ 12	$ 46	$ 16	$ 169
1997 restructuring charges	55	2	22	11	90
Cash payments	(79)	(13)	(46)	(21)	(159)
Cash receipt	–	–	87	–	87
Reserve, December 27, 1997	71	1	109	6	187
1998 restructuring charges	24	5	5	–	34
Cash payments	(41)	(1)	(46)	(5)	(93)
Changes in estimate	(12)	4	(6)	–	(14)
Reserve, December 26, 1998	42	9	62	1	114
1999 restructuring charges	**19**	**7**	**–**	**2**	**28**
Cash payments	**(23)**	**(4)**	**(47)**	**(1)**	**(75)**
Separation of PBG (see Note 2)	**(25)**	**(5)**	**(5)**	**–**	**(35)**
Reserve, December 25, 1999	**$ 13**	**$ 7**	**$ 10**	**$ 2**	**$ 32**

The restructuring reserves are included in accounts payable and other current liabilities in the Consolidated Balance Sheet. At year-end 1999, the remaining liability for restructuring charges associated with investments in unconsolidated affiliates was $10 million related to indemnifications of litigation liabilities.

The remaining carrying amounts of assets held for disposal were $6 million as of December 25, 1999, $13 million as of December 26, 1998 and $60 million as of December 27, 1997. During 1998 and 1997, the net sales from international bottling business units held for disposal were $202 million and $590 million, respectively. Such businesses generated operating profits of $20 million in 1998 and $42 million in 1997. Our investments in unconsolidated affiliates held for disposal provided break-even results in 1999 and losses of $2 million in 1998 and $5 million in 1997.

Note 5 – Discontinued Operations

The restaurants segment was composed of the core restaurant businesses of Pizza Hut, Taco Bell and Kentucky Fried Chicken, PepsiCo Food Systems (PFS), a restaurant distribution operation, and several non-core U.S. restaurant businesses. In 1997, we spun off the restaurant businesses to our shareholders as an independent publicly traded company (Distribution). The spin-off was effective as a tax-free Distribution on October 6, 1997 (Distribution Date). Owners of PepsiCo Capital Stock as of September 19, 1997 received one share of common stock of Tricon Global Restaurants, Inc., the new company, for every 10 shares of PepsiCo Capital Stock. Immediately before the Distribution Date, we received $4.5 billion in cash from Tricon as repayment of certain amounts due and a dividend. PFS and the non-core U.S. restaurant businesses were sold before the Distribution Date resulting in after-tax cash proceeds of approximately $1.0 billion.

Income from discontinued operations:

	1997
Net sales	$ 8,375
Costs and expenses	(7,704)
PFS gain	500
Interest expense, net	(20)
Provision for income taxes	(500)
Income from discontinued operations	$ 651

The above amounts include costs directly associated with the spin-off but do not include an allocation of our interest or general and administrative expenses.

Note 6 – Income Per Share

We present two income per share measures, basic and assuming dilution, on the face of the Consolidated Statement of Income. "Basic" income per share equals net income divided by weighted average common shares outstanding during the period. Income per share "assuming dilution" equals net income divided by the sum of weighted average common shares outstanding during the period plus common stock equivalents, such as stock options.

The following reconciles shares outstanding at the beginning of the year to average shares outstanding:

	1999	1998	1997
Shares outstanding at beginning of year	**1,471**	1,502	1,545
Weighted average shares issued during the year for exercise of stock options	**11**	18	14
Weighted average shares repurchased	**(16)**	(40)	(31)
Average shares outstanding – basic	**1,466**	1,480	1,528
Effect of dilutive securities			
Dilutive shares contingently issuable upon the exercise of stock options	**132**	144	151
Shares assumed purchased with proceeds from exercise of stock options	**(102)**	(105)	(109)
Average shares outstanding – assuming dilution	**1,496**	1,519	1,570

Diluted earnings per share excludes incremental shares of 48.9 million in 1999, 31.1 million in 1998 and .2 million in 1997 related to employee stock options due to their antidilutive effect.

Note 7 – Accounts and Notes Receivable, net

	1999	1998	1997
Trade receivables	$1,234	$2,126	
Receivables from affiliates	243	59	
Other receivables	312	395	
	1,789	2,580	
Allowance, beginning of year	127	125	$166
Charged to expense	26	47	41
Other additions	9	8	7
Deductions	(77)	(53)	(89)
Allowance, end of year	85	127	$125
Net receivables	$1,704	$2,453	

Other additions include acquisitions and reclassifications and deductions include the impact of the bottling transactions, accounts written off and currency translation effects.

Note 8 – Inventories

	1999	1998
Raw materials	$464	$ 506
Work-in-process	89	70
Finished goods	346	440
	$899	$1,016

The cost of approximately 9% of 1999 inventories and approximately 36% of 1998 inventories was computed using the last-in, first-out method.

Note 9 – Property, Plant and Equipment, net

	1999	1998
Land	$ 363	$ 460
Buildings and improvements	2,352	3,114
Machinery and equipment, including fleet	5,554	8,806
Construction in progress	547	730
	8,816	13,110
Accumulated depreciation	(3,550)	(5,792)
	$5,266	$ 7,318

Depreciation expense was $759 million in 1999, $968 million in 1998 and $881 million in 1997. At December 25, 1999, property, plant and equipment with a total net book value of $93 million were pledged as collateral for mortgage loans.

Note 10 – Intangible Assets, net

	1999	1998
Goodwill	$3,808	$5,131
Reacquired franchise rights	78	3,118
Trademarks and other identifiable intangibles	849	747
	$4,735	$8,996

Identifiable intangible assets possess economic value but lack physical substance. These assets primarily arise from the allocation of purchase prices of businesses acquired. Amounts assigned to such identifiable intangibles are based on independent appraisals or internal estimates. Goodwill represents the excess purchase price after allocation to all identifiable net assets.

The above amounts are presented net of accumulated amortization of $640 million at year-end 1999 and $1.9 billion at year-end 1998.

Note 11 – Accounts Payable and Other Current Liabilities

	1999	1998
Accounts payable	$1,121	$1,180
Accrued compensation and benefits	602	676
Accrued selling and marketing	524	596
Other current liabilities	1,152	1,418
	$3,399	$3,870

Note 12 – Short-Term Borrowings and Long-Term Debt

	1999	1998
Short-Term Borrowings		
Commercial paper (5.3%)	$ -	$1,901
Current maturities of long-term debt	718	1,075
Notes (5.2%)	-	2,076
Other borrowings (6.9% and 7.4%)	415	519
Amounts reclassified to long-term debt	(900)	(1,650)
	$ 233	$3,921
Long-Term Debt		
Short-term borrowings, reclassified	$ 900	$1,650
Notes due 2000-2013 (6.1% and 5.8%)	1,685	1,693
Various foreign currency debt, due 2000-2001 (6.1% and 5.3%)	341	956
Zero coupon notes, $735 million due 2011-2012 (13.4% and 10.1%)	324	504
Other, due 2000-2014 (7.3% and 6.8%)	280	300
	3,530	5,103
Less current maturities of long-term debt	(718)	(1,075)
	$2,812	$4,028

The weighted average interest rates in the above table include the effects of associated interest rate and currency swaps at year-end 1999 and 1998. Also, see Note 13 for a discussion of our use of interest rate and currency swaps, our management of the inherent credit risk and fair value information related to debt and interest rate and currency swaps.

Interest Rate Swaps

The following table indicates the notional amount and weighted average interest rates, by category, of interest rate swaps outstanding at year-end 1999 and 1998. The weighted average variable interest rates that we pay, which are primarily linked to either commercial paper or LIBOR rates, are based on rates as of the respective balance sheet date and are subject to change.

	1999	1998
Receive fixed-pay variable		
Notional amount	**$1,162**	$1,855
Weighted average receive rate	**6.1%**	6.1%
Weighted average pay rate	**6.1%**	5.3%

The terms of the interest rate swaps match the terms of the debt they modify. The swaps terminate at various dates through 2013. At year-end 1999, approximately 67% of total debt, including the effects of the associated interest rate swaps, was exposed to variable interest rates, compared to 83% in 1998. In addition to variable rate long-term debt, all debt with maturities of less than one year is categorized as variable for purposes of this measure.

Currency Swaps

We enter into currency swaps to hedge our currency exposure on certain non-U.S. dollar denominated debt upon issuance of such debt. The terms of the currency swaps match the terms of the debt they modify. The currency swaps terminate at various dates through 2001.

At year-end 1999, the aggregate carrying amount of the debt was $244 million denominated in Swiss francs, Luxembourg francs and Australian dollars. The payables under related currency swaps were $62 million, resulting in an effective U.S. dollar liability of $306 million with a weighted average interest rate of 6.3%, including the effects of related interest rate swaps.

At year-end 1998, the aggregate carrying amount of the debt was $678 million denominated in Japanese yen, Swiss francs, Luxembourg francs and Australian dollars. The receivables and payables under related currency swaps were $1 million and $70 million, respectively, resulting in a net effective U.S. dollar liability of $747 million with a weighted average interest rate of 5.3%, including the effects of related interest rate swaps.

Revolving Credit Facilities

As of year-end 1999, we maintained a $600 million facility expiring in June 2000 and a $900 million facility expiring in June 2004. These credit facilities exist largely to support issuances of short-term debt and remained unused at year-end 1999. At expiration, these facilities can be extended an additional year upon the mutual consent of PepsiCo and the lending institutions. These facilities are subject to normal banking terms and conditions.

The current reclassification of short-term borrowings to long-term debt reflects our intent and ability, through the existence of the unused credit facilities, to refinance these borrowings on a long-term basis.

Long-term debt outstanding at December 25, 1999, matures as follows during the next five years:

	2000	2001	2002	2003	2004
Maturities	$718	$337	$258	$287	$33

Note 13 – Financial Instruments

Derivative Financial Instruments

Our policy prohibits the use of derivative financial instruments for speculative purposes and we have procedures in place to monitor and control their use. The following discussion excludes futures contracts used to hedge our commodity purchases.

Our use of derivative financial instruments is primarily limited to interest rate and currency swaps, which are used to reduce borrowing costs by effectively modifying the interest rate and currency of specific debt issuances. These swaps are entered into concurrently with the issuance of the debt they are intended to modify. The notional amount, interest payment and maturity dates of the swaps match the principal, interest payment and maturity dates of the related debt. Accordingly, any market risk or opportunity associated with these swaps is fully offset by the opposite market impact on the related debt. Our credit risk related to interest rate and currency swaps is considered low because such swaps are entered into only with strong creditworthy counterparties, are generally settled on a net basis and are of relatively short duration. Further, there is no significant concentration with counterparties. See Note 12 for the notional amounts, related interest rates and maturities of the interest rate and currency swaps.

At year-end 1999, we have equity derivative contracts with financial institutions in the notional amount of $52 million. These prepaid forward contracts hedge a portion of our deferred compensation liability which is based on PepsiCo's stock price. During 1999, the change in the fair value of these contracts resulted in $6 million of expense.

Fair Value

Carrying amounts and fair values of our financial instruments:

	1999		1998	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	**$ 964**	**$ 964**	$ 311	$ 311
Short-term investments	**$ 92**	**$ 92**	$ 83	$ 83
Prepaid expenses	**$ 47**	**$ 47**	$ –	$ –
Other assets (noncurrent investments)	**$ –**	**$ –**	$ 5	$ 5
Liabilities				
Debt				
Short-term borrowings and long-term debt, excluding capital leases	**$3,042**	**$3,121**	$7,934	$8,192
Debt-related derivative instruments				
Interest rate swaps in asset position	**–**	**–**	–	(18)
Interest rate swaps in liability position	**–**	**29**	–	1
Combined currency and interest rate swaps in asset position	**–**	**–**	(1)	(2)
Combined currency and interest rate swaps in liability position	**62**	**57**	70	56
Net debt	**$3,104**	**$3,207**	$8,003	$8,229

The above carrying amounts are included in the Consolidated Balance Sheet under the indicated captions, except for combined currency and interest rate swaps, which are included in the appropriate current or noncurrent asset or liability caption. Short-term investments consist primarily of debt securities and have been classified as held-to-maturity. Prepaid forward contracts are classified within prepaid expenses.

Because of the short maturity of cash equivalents and short-term investments, the carrying amounts approximate fair values. The fair values of debt and debt-related derivative instruments were estimated using market quotes and calculations based on market rates. We have unconditionally guaranteed $2.3 billion of Bottling Group, LLC's long-term debt. The guarantee has a fair value of $64 million based on market rates.

Note 14 – Income Taxes

U.S. and foreign income from continuing operations before income taxes:

	1999	1998	1997
U.S.	$2,771	$1,629	$1,731
Foreign	885	634	578
	$3,656	$2,263	$2,309

Provision for income taxes on income from continuing operations:

		1999	1998	1997
Current:	Federal	$ 730	$ (193)	$ 598
	Foreign	306	267	110
	State	40	46	59
		1,076	120	767
Deferred:	Federal	519	136	23
	Foreign	(12)	4	15
	State	23	10	13
		530	150	51
		$1,606	$ 270	$ 818

Reconciliation of the U.S. Federal statutory tax rate to our effective tax rate on continuing operations:

	1999	1998	1997
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of Federal tax benefit	1.1	1.6	2.0
Lower taxes on foreign results	(2.7)	(3.0)	(5.5)
Settlement of prior years' audit issues	–	(5.7)	(1.7)
Puerto Rico settlement	–	(21.8)	–
Bottling transactions	10.6	–	–
Asset impairment and restructuring	–	3.4	2.2
Other, net	(0.1)	2.4	3.4
Effective tax rate on continuing operations	43.9%	11.9%	35.4%

In 1998, we reached final agreement with the IRS to settle substantially all remaining aspects of a tax case related to our concentrate operations in Puerto Rico. As a result, we recognized a tax benefit totaling $494 million (or $0.32 per share) which reduced our 1998 provision for income taxes.

Deferred taxes are recorded to give recognition to temporary differences between the tax bases of assets or liabilities and their reported amounts in the financial statements. We record the tax effect of these temporary differences as deferred tax assets or deferred tax liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years. Deferred tax liabilities generally represent items that we have taken a tax deduction for, but have not yet recorded in the Consolidated Statement of Income.

Deferred tax liabilities (assets):

	1999	1998
Intangible assets other than nondeductible goodwill	$ 47	$1,444
Investments in unconsolidated affiliates	667	17
Property, plant and equipment	545	665
Safe harbor leases	101	109
Zero coupon notes	76	79
Other	328	456
Gross deferred tax liabilities	1,764	2,770
Net operating loss carryforwards	(450)	(562)
Postretirement benefits	(179)	(246)
Various current liabilities and other	(626)	(702)
Gross deferred tax assets	(1,255)	(1,510)
Deferred tax assets valuation allowances	461	571
Deferred tax assets, net of valuation allowances	(794)	(939)
Net deferred tax liabilities	$ 970	$1,831
Included in:		
Prepaid expenses and other current assets	$ (239)	$ (172)
Deferred income taxes	1,209	2,003
	$ 970	$1,831

Deferred tax liabilities are not recognized for temporary differences related to investments in foreign subsidiaries and in unconsolidated foreign affiliates that are essentially permanent in duration. It would not be practicable to determine the amount of any such deferred tax liabilities.

Valuation allowances have been established for deferred tax assets related to net operating losses in certain state and foreign tax jurisdictions where the amount of expected future taxable income from operations does not support the recognition of these deferred tax assets.

Analysis of Valuation Allowances:

	1999	1998	1997
Balance, beginning of year	**$571**	$458	$435
Provision	**81**	113	47
Other deductions	**(191)**	–	(24)
Balance, end of year	**$461**	$571	$458

Other deductions include the impact of the bottling transactions and currency translation effects.

Net operating losses of $2.7 billion for year-end 1999 are being carried forward and are available to reduce future taxable income of certain subsidiaries in a number of foreign and state jurisdictions. These net operating losses will expire as follows: $.1 billion in 2000, $2.3 billion between 2001 and 2015, while $.3 billion may be carried forward indefinitely.

Note 15 – Employee Stock Options

Stock options have been granted to employees under three different incentive plans:

- the SharePower Stock Option Plan (SharePower),
- the Long-Term Incentive Plan (LTIP) and
- the Stock Option Incentive Plan (SOIP).

SharePower

SharePower stock options are granted to essentially all full-time employees. SharePower options generally have a 10 year term. Beginning in 1998, the number of SharePower options granted is based on each employee's annual earnings and tenure and generally become exercisable after three years. Prior to 1998, the number of options granted was based on each employee's annual earnings and generally became exercisable ratably over five years.

SOIP and LTIP Since 1998

Beginning in 1998, all executive (including middle management) awards are made under the LTIP. Under the LTIP, an executive generally receives an award based on a multiple of base salary. Two-thirds of the award consists of stock options with an exercise price equal to the average stock price on the date of the award. These options generally become exercisable at the end of three years and have a 10 year term. At the date of the award, the executive selects whether the remaining one-third of the award will be granted in stock options or paid in cash at the end of three years. The number of options granted or the cash payment, if any, will depend on the attainment of prescribed performance goals over the three year measurement period. If the executive chooses stock options, they are granted with an exercise price equal to the average stock price on the date of the grant, vest immediately and have a 10 year term. If the executive chooses a cash payment, one dollar of cash will be received for every four dollars of the award. Amounts expensed for expected cash payments were $17.9 million in 1999 and $7 million in 1998. At year-end 1999, 135 million shares were available for grants under the LTIP.

SOIP and LTIP Prior to 1998

Prior to 1998, SOIP options were granted to middle management employees and were exercisable after one year. LTIP options were granted to senior management employees and were generally exercisable after four years. Both SOIP and LTIP options have 10 year terms. Certain LTIP options could be exchanged by employees for a specified number of performance share units (PSUs) within 60 days of the grant date. The value of a PSU was fixed at the stock price at the grant date and the PSU was payable four years from the grant date, contingent upon attainment of prescribed performance goals. At year-end 1999, 1998 and 1997, there were 68,000, 84,000 and 801,000 PSUs outstanding, respectively. Payment of PSUs is made in cash and/or in stock as approved by the Compensation Committee of our Board of Directors. Amounts expensed for PSUs were $.3 million in 1999, $1 million in 1998 and $4 million in 1997.

Stock option activity:

(Options in thousands)	**1999**		1998		1997	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	**146,991**	**$23.28**	146,329	$18.95	177,217	$20.22
Granted	**44,017**	**35.04**	34,906	36.33	3,457	31.54
Exercised	**(19,646)**	**15.68**	(28,076)	15.31	(25,504)	15.77
Surrendered for PSUs	**–**	**–**	(24)	37.46	(15)	37.68
Forfeited/expired	**(7,979)**	**33.34**	(6,144)	28.83	(7,819)	24.89
Spin-off related:						
Conversion to Tricon options [(a)]	**–**	**–**	–	–	(13,267)	25.75
PepsiCo modification [(b)]	**–**	**–**	–	–	12,260	–
Outstanding at end of year	**163,383**	**26.90**	146,991	23.28	146,329	18.95
Exercisable at end of year [(c)]	**75,045**	**$18.98**	82,692	$16.74	81,447	$15.39
Weighted average fair value of options granted during the year		**$10.43**		$ 9.82		$10.55

(a) Effective on the date of the Tricon spin-off, unvested PepsiCo Capital Stock options held by Tricon employees were converted to Tricon stock options.

(b) Immediately following the spin-off, the number of options were increased and exercise prices were decreased (the "modification") to preserve the economic value of those options that existed just prior to the spin-off for the holders of PepsiCo Capital Stock options.

(c) In connection with the bottling transactions discussed in Note 2, substantially all non-vested PepsiCo Capital Stock options held by bottling employees vested. The acceleration resulted in a $46 million pre-tax charge included in the determination of the related net gain.

Stock options outstanding and exercisable at December 25, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
$ 4.25 to $ 9.84	5,832	1.47 yrs.	$ 6.37	5,822	$ 6.37
$11.12 to $27.73	73,745	4.13	19.40	56,383	17.05
$29.44 to $41.50	83,806	8.71	35.04	12,840	33.63
	163,383	6.36	26.90	75,045	18.98

Pro forma income and pro forma income per share, as if we had recorded compensation expense based on fair value for stock-based awards:

	1999	1998	1997
Reported			
Income			
Continuing operations	**$2,050**	$1,993	$1,491
Discontinued operations	**–**	–	651
Net income	**$2,050**	$1,993	$2,142
Income per share – basic			
Continuing operations	**$ 1.40**	$ 1.35	$ 0.98
Discontinued operations	**–**	–	0.42
Net income	**$ 1.40**	$ 1.35	$ 1.40
Income per share – assuming dilution			
Continuing operations	**$ 1.37**	$ 1.31	$ 0.95
Discontinued operations	**–**	–	0.41
Net income	**$ 1.37**	$ 1.31	$ 1.36
Pro Forma			
Income			
Continuing operations	**$1,904**	$1,888	$1,390
Discontinued operations	**–**	–	635
Net income	**$1,904**	$1,888	$2,025
Income per share – basic			
Continuing operations	**$ 1.30**	$ 1.28	$ 0.91
Discontinued operations	**–**	–	0.42
Net income	**$ 1.30**	$ 1.28	$ 1.33
Income per share – assuming dilution			
Continuing operations	**$ 1.27**	$ 1.24	$ 0.89
Discontinued operations	**–**	–	0.40
Net income	**$ 1.27**	$ 1.24	$ 1.29

The pro forma amounts disclosed above are not fully representative of the effects of stock-based awards because, except for the impact resulting from the bottling transactions and Tricon modification, the amounts exclude the pro forma cost related to the unvested stock options granted before 1995.

The fair value of the options granted (including the modification) is estimated using the Black-Scholes option-pricing model based on the following weighted average assumptions:

	1999	1998	1997
Risk free interest rate	**5.2%**	4.7%	5.8%
Expected life	**5 yrs.**	5 yrs.	3 yrs.
Expected volatility	**27%**	23%	20%
Expected dividend yield	**1.34%**	1.14%	1.32%

Note 16 – Pension and Postretirement Benefits

In 1998, we adopted the revised disclosure requirements of Statement of Financial Accounting Standards No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits.* SFAS 132 standardized the disclosures of pensions and other postretirement benefits into a combined format but did not change the accounting for these benefits. Information for 1997 has been reclassified to conform to the revised disclosure format.

Pension Benefits

Our pension plans cover substantially all full-time U.S. employees and certain international employees. Benefits depend on years of service and earnings or are based on stated amounts for each year of service.

Postretirement Benefits

Our postretirement plans provide medical and life insurance benefits principally to U.S. retirees and their dependents. Employees are eligible for benefits if they meet age and service requirements and qualify for retirement benefits.

Components of net periodic benefit cost:

	Pension		
	1999	1998	1997
Service cost	**$ 99**	$ 95	$ 82
Interest cost	**128**	136	123
Expected return on plan assets	**(156)**	(169)	(148)
Amortization of transition asset	**(2)**	(9)	(14)
Amortization of prior service amendments	**8**	12	11
Amortization of net loss	**15**	5	4
Net periodic benefit cost	**92**	70	58
Curtailment/settlement loss (gain)	**52**	9	(4)
Special termination benefits	**10**	4	8
Net periodic benefit cost including curtailments/settlements and special termination benefits	**$ 154**	$ 83	$ 62

Components of net periodic benefit cost:

	Postretirement		
	1999	1998	1997
Service cost	**$ 16**	$ 16	$ 12
Interest cost	**35**	39	40
Amortization of prior service amendments	**(14)**	(18)	(18)
Amortization of net gain	**(1)**	(2)	–
Net periodic benefit cost	**36**	35	34
Special termination benefits	**3**	1	–
Net periodic benefit cost including special termination benefits	**$ 39**	$ 36	$ 34

Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

Change in the benefit obligation:

	Pension		Postretirement	
	1999	1998	**1999**	1998
Obligation at beginning of year	**$2,479**	$1,928	**$ 644**	$528
Service cost	**99**	95	**16**	16
Interest cost	**128**	136	**35**	39
Plan amendments	**1**	5	**–**	–
Participant contributions	**6**	4	**–**	–
Actuarial loss	**3**	229	**6**	56
(Divestitures)/acquisitions	**(717)**	236	**(205)**	42
Benefit payments	**(134)**	(149)	**(31)**	(38)
Curtailment/settlement	**–**	(1)	**–**	–
Special termination benefits	**10**	4	**3**	1
Foreign currency adjustment	**(3)**	(8)	**–**	–
Obligation at end of year	**$1,872**	$2,479	**$ 468**	$644

Change in the fair value of plan assets:

	Pension		Postretirement	
	1999	1998	**1999**	1998
Fair value at beginning of year	**$2,045**	$1,997	**$ –**	$ –
Actual return on plan assets	**343**	(71)	**–**	–
(Divestitures)/acquisitions	**(659)**	240	**–**	–
Employer contributions	**17**	31	**31**	38
Participant contributions	**6**	4	**–**	–
Benefit payments	**(134)**	(149)	**(31)**	(38)
Foreign currency adjustment	**(3)**	(7)	**–**	–
Fair value at end of year	**$1,615**	$2,045	**$ –**	$ –

As a result of the bottling transactions described in Note 2, $717 million of pension benefit obligation and $205 million of postretirement benefit obligation were assumed by bottling affiliates. In addition, bottling affiliate plans assumed ownership of $659 million of pension assets. The net gain on the bottling transactions includes a curtailment/settlement net loss of $52 million.

Selected information for plans with accumulated benefit obligation in excess of plan assets:

	Pension		Postretirement	
	1999	1998	**1999**	1998
Projected benefit obligation	**$(780)**	$(1,960)	**$(468)**	$(644)
Accumulated benefit obligation	**$(586)**	$(1,661)	**$(468)**	$(644)
Fair value of plan assets	**$ 500**	$ 1,498	**$ –**	$ –

Funded status as recognized in the Consolidated Balance Sheet:

	Pension		Postretirement	
	1999	1998	**1999**	1998
Funded status at end of year	**$(257)**	$(434)	**$(468)**	$(644)
Unrecognized prior service cost	**34**	76	**(33)**	(69)
Unrecognized loss	**61**	338	**14**	29
Unrecognized transition asset	**(3)**	(7)	**–**	–
Net amounts recognized	**$(165)**	$ (27)	**$(487)**	$(684)

Net amounts as recognized in the Consolidated Balance Sheet:

	Pension		Postretirement	
	1999	1998	**1999**	1998
Prepaid benefit cost	**$117**	$ 116	**$ –**	$ –
Accrued benefit liability	**(287)**	(210)	**(487)**	(684)
Intangible assets	**–**	36	**–**	–
Accumulated other comprehensive income	**5**	31	**–**	–
Net amounts recognized	**$(165)**	$ (27)	**$(487)**	$(684)

Weighted-average assumptions at end of year:

	Pension		
	1999	1998	1997
Discount rate for benefit obligation	**7.7%**	6.8%	7.3%
Expected return on plan assets	**10.4%**	10.2%	10.3%
Rate of compensation increase	**4.6%**	4.7%	4.8%

The discount rate assumptions used to compute the postretirement benefit obligation at year end were 7.75% in 1999 and 6.9% in 1998.

Components of Pension Assets

The pension plan assets are principally stocks and bonds. These assets include approximately 6.5 million shares of PepsiCo Capital Stock with a fair value of $198 million in 1999 and 10.1 million shares with a fair value of $298 million in 1998. To maintain diversification, .5 million shares of PepsiCo Capital Stock were sold in 1999 and 1.6 million shares were sold in 1998. In addition in 1999, PBG pension plans assumed ownership of 3.1 million shares of PepsiCo Capital Stock with a fair value of $95 million.

Health Care Cost Trend Rates

An average increase of 6.1% in the cost of covered postretirement medical benefits is assumed for 2000 for employees who retire without cost sharing. This average increase is then projected to decline gradually to 5.5% in 2005 and thereafter.

An average increase of 6.0% in the cost of covered postretire-

ment medical benefits is assumed for 2000 for employees who retire with cost sharing. This average increase is then projected to decline gradually to zero in 2005 and thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for postretirement medical plans. A one percentage point change in assumed health care costs would have the following effects:

	1% Increase	1% Decrease
Effect on total of 1999 service and interest cost components	$ 2	$ (2)
Effect on the 1999 accumulated postretirement benefit obligation	$23	$(22)

Note 17 – Commitments, Contingencies and Leases

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. Contingent liabilities primarily reflect guarantees to support financial arrangements of certain unconsolidated affiliates, including the unconditional guarantee for $2.3 billion of Bottling Group, LLC's long-term debt. We believe that the ultimate liability, if any, in excess of amounts already recognized arising from such claims or contingencies is not likely to have a material adverse effect on our results of operations, financial condition or liquidity.

We have noncancelable commitments under both capital and long-term operating leases, primarily for warehouses, distribution centers and office space. Capital and operating lease commitments expire at various dates through 2022 and, in many cases, provide for renewal options. Most leases require payment of related executory costs, which include property taxes, maintenance and insurance.

Future minimum commitments under noncancelable leases:

	Capital	Operating
2000	$1	$ 63
2001	1	57
2002	–	44
2003	–	18
2004	–	14
Later years	2	68
Total minimum lease payments	4	$264
Less imputed interest	(1)	
Present value of net minimum capital lease payments	$3	

Capitalized leases, included as property, plant and equipment, were $13 million in 1999 and $46 million in 1998. The related accumulated amortization was $7 million in 1999 and $25 million in 1998. Amortization expense related to capitalized leases was $1 million in 1999, $6 million in 1998 and $6 million in 1997.

Details of rental expense:

	1999	1998	1997
Minimum	$ 91	$141	$127
Contingent	1	1	1
	$ 92	$142	$128

Note 18 – Business Segments

In 1998, we adopted Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of a Business Enterprise and Related Information*, which is based on management reporting. In early 1999, in contemplation of the separation from PepsiCo of our bottling operations, we completed a reorganization of our Pepsi-Cola business. Accordingly, our 1999 disclosure presents operating results consistent with the new Pepsi-Cola organization. Prior years' amounts have been reclassified to conform to the 1999 presentation. Therefore, the results in 1997, 1998 and through the applicable transaction closing dates in 1999 of consolidated bottling operations in which we now own an equity interest are presented separately with the 1997, 1998 and first quarter 1999 equity income or loss of other unconsolidated bottling affiliates. From the applicable transaction closing dates in 1999, the equity income of those previously consolidated bottling operations and the equity income or loss of other unconsolidated bottling affiliates for the second, third and fourth quarters of 1999 are presented separately below operating profit in the Condensed Consolidated Statement of Income. The combined results of our five reportable segments are referred to as new PepsiCo.

The North American segments include the United States and Canada. The Tropicana segment includes its international results. Pepsi-Cola North America results include the North American concentrate and fountain businesses. Pepsi-Cola International results include the international concentrate business and consolidated international bottling operations.

The accounting policies of the segments are the same as those described in Note 1. All intersegment net sales and expenses are immaterial and have been eliminated in computing net sales and operating profit.

Frito-Lay North America

Frito-Lay North America manufactures, markets, distributes and sells salty snacks. Products manufactured and sold in North America include Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Fritos brand corn chips, Cheetos brand cheese flavored snacks, Rold Gold brand pretzels, Cracker Jack brand candy-coated popcorn, Grandma's brand cookies and a variety of branded dips and salsas. Low-fat and no-fat versions of several brands are also manufactured and sold in North America.

Frito-Lay International

Frito-Lay International manufactures, markets, distributes and sells salty and sweet snacks. Products include Walkers brand snack foods in the United Kingdom, Smith's brand snack foods in Australia, Sabritas brand snack foods and Alegro and Gamesa brand sweet snacks in Mexico. Many of our U.S. brands have

been introduced internationally such as Lay's and Ruffles brand potato chips, Doritos and Tostitos brand tortilla chips, Fritos brand corn chips and Cheetos brand cheese flavored snacks.

Principal international system-wide snack markets include Australia, Brazil, Mexico, the Netherlands, South Africa, Spain and the United Kingdom.

Pepsi-Cola North America

Pepsi-Cola North America manufactures concentrates of Pepsi-Cola, Diet Pepsi, Pepsi One, Mountain Dew and other brands for sale to franchised bottlers. PCNA markets and promotes its brands. PCNA also manufactures, markets and distributes ready-to-drink tea and coffee products through joint ventures with Lipton and Starbucks and licenses the processing, distribution and sale of Aquafina bottled water.

Pepsi-Cola International

Pepsi-Cola International manufactures concentrates of Pepsi-Cola, Diet Pepsi, Mountain Dew, 7UP, Diet 7UP, Mirinda, Pepsi Max and other brands internationally for sale to franchised bottlers and company-owned bottlers. PCI operates bottling plants and distribution facilities in various international markets for the production, distribution and sale of company-owned and licensed brands. PCI markets and promotes its brands internationally.

Principal international system-wide markets include Argentina, Brazil, China, India, Mexico, the Philippines, Saudi Arabia, Spain, Thailand and the United Kingdom.

Tropicana

Tropicana produces, markets, distributes and sells its juices internationally. Products include Tropicana Pure Premium, Season's Best, Tropicana Twister, Dole and Tropicana Pure Tropics brand juices primarily sold in the United States. Many of these products are distributed and sold in Canada and brands such as Fruvita, Looza and Copella are available in Europe.

Principal international markets include Belgium, Canada, France and the United Kingdom.

Impairment and Restructuring Charges By Segment

	1999	1998	1997
Frito-Lay			
– North America	$ 65	$ 54	$ 22
– International	–	–	62
Pepsi-Cola			
– North America	–	6	52
– International	–	6	131
Combined segments	65	66	267
Bottling Operations/Investments	–	222	23
	$ 65	$288	$290

See Note 4 for details on the above asset impairment and restructuring charges.

BUSINESS SEGMENTS

	1999	1998	1997
Net Sales			
Frito-Lay			
– North America	$ 7,865	$ 7,474	$ 6,967
– International	3,750	3,501	3,409
Pepsi-Cola			
– North America	2,605	1,389	1,344
– International	1,771	1,600	1,935
Tropicana	2,253	722	–
New PepsiCo	18,244	14,686	13,655
Bottling Operations/Investments	2,123	7,662	7,262
	$20,367	$22,348	$20,917
Operating Profit (a)			
Frito-Lay			
– North America	$ 1,580	$ 1,424	$ 1,388
– International	406	367	318
Pepsi-Cola			
– North America	751	732	755
– International	108	99	(67)
Tropicana	170	40	–
Combined segments	3,015	2,662	2,394
Corporate (b)	(250)	(202)	(142)
New PepsiCo	2,765	2,460	2,252
Bottling Operations/Investments	53	124	410
	$ 2,818	$ 2,584	$ 2,662
Total Assets			
Frito-Lay			
– North America	$ 4,013	$ 3,915	$ 3,650
– International	4,170	4,039	3,583
Pepsi-Cola			
– North America	729	547	600
– International	1,454	1,177	1,814
Tropicana	3,708	3,661	–
Combined segments	14,074	13,339	9,647
Corporate (c)	1,008	215	2,160
Bottling Operations/Investments	2,469	9,106	8,294
	$17,551	$22,660	$20,101

	1999	1998	1997
Amortization of Intangible Assets			
Frito-Lay			
– North America	**$ 8**	$ 7	$ 6
– International	**46**	43	38
Pepsi-Cola			
– North America	**2**	3	3
– International	**13**	8	8
Tropicana	**70**	22	–
Combined segments	**139**	83	55
Corporate	**–**	–	2
Bottling Operations/Investments	**44**	139	142
	$ 183	$ 222	$ 199
Depreciation and Other Amortization Expense			
Frito-Lay			
– North America	**$ 338**	$ 326	$ 285
– International	**149**	142	112
Pepsi-Cola			
– North America	**72**	30	23
– International	**85**	64	100
Tropicana	**81**	27	–
Combined segments	**725**	589	520
Corporate	**10**	8	7
Bottling Operations/Investments	**114**	415	380
	$ 849	$1,012	$ 907
Significant Other Noncash Items (d)			
Frito-Lay			
– North America	**$ 37**	$ 54	$ 9
– International	**–**	–	53
Pepsi-Cola			
– North America	**–**	–	52
– International	**–**	6	114
Combined segments	**37**	60	228
Bottling Operations/Investments	**–**	194	5
	$ 37	$ 254	$ 233
Capital Spending			
Frito-Lay			
– North America	**$ 472**	$ 402	$ 622
– International	**282**	314	251
Pepsi-Cola			
– North America	**22**	21	12
– International	**82**	46	94
Tropicana	**123**	50	–
Combined segments	**981**	833	979
Corporate	**42**	29	15
Bottling Operations/Investments	**95**	543	512
	$1,118	$1,405	$1,506

	1999	1998	1997
Investments in Unconsolidated Affiliates			
Frito-Lay International	**$ 284**	$ 341	$ 234
Pepsi-Cola North America	**50**	33	33
Tropicana	**21**	22	–
Combined segments	**355**	396	267
Corporate	**22**	22	22
Bottling Operations/Investments	**2,469**	978	912
	$ 2,846	$ 1,396	$ 1,201
Equity Income/(Loss) from Unconsolidated Affiliates (e)			
Frito-Lay			
– North America	**$ –**	$ –	$ (3)
– International	**3**	(5)	50
Pepsi-Cola North America	**31**	21	14
Tropicana	**2**	1	–
Combined segments	**36**	17	61
Bottling Operations/Investments	**76**	8	23
	$ 112	$ 25	$ 84

GEOGRAPHIC AREAS

	1999	1998	1997
Net Sales			
United States	**$11,772**	$ 8,782	$ 7,630
International	**6,472**	5,904	6,025
Combined segments	**18,244**	14,686	13,655
Bottling Operations/Investments	**2,123**	7,662	7,262
	$20,367	$22,348	$20,917
Long-Lived Assets (f)			
United States	**$ 7,980**	$ 6,732	$ 3,700
International	**4,867**	4,276	3,306
Combined segments	**12,847**	11,008	7,006
Bottling Operations/Investments	**–**	6,702	6,311
	$12,847	$17,710	$13,317

(a) Includes asset impairment and restructuring charges on page 40.

(b) Includes unallocated corporate headquarters expenses and costs of centrally managed insurance programs, minority interests and foreign exchange translation and transaction gains and losses.

(c) Corporate assets consist principally of cash and cash equivalents, short-term investments primarily held outside the U.S. and property and equipment.

(d) Represents the noncash portion of asset impairment and restructuring charges. See Note 4.

(e) 1999 includes $18.2 million for our share of a gain recorded by PBG related to accrual and reserve adjustments and $9.6 million for our share of an unusual charge recorded by Whitman related to discontinued operations. In 1997, FLI included a gain of $22 million related to the sale of a non-core investment.

(f) Represents net property, plant and equipment, net intangible assets and investments in unconsolidated affiliates.

Note 19 – Selected Quarterly Financial Data

(unaudited)

	First Quarter (a) (b) (12 Weeks)		Second Quarter (a) (b) (12 Weeks)		Third Quarter (a) (b) (12 Weeks)		Fourth Quarter (16 Weeks)		Full Year (a) (b) (52 Weeks)	
	1999	1998	**1999**	1998	**1999**	1998	**1999**	1998	**1999**	1998
Net sales	**$5,114**	4,353	**$4,982**	5,258	**$4,591**	5,544	**$5,680**	7,193	**$20,367**	22,348
Gross profit	**$2,974**	2,603	**$2,970**	3,110	**$2,798**	3,261	**$3,427**	4,044	**$12,169**	13,018
Asset impairment and restructuring charges (c)	**$ 65**	–	**$ –**	–	**$ –**	–	**$ –**	288	**$ 65**	288
Gain on bottling transactions (d)	**$ –**	–	**$1,000**	–	**$ –**	–	**$ –**	–	**$ 1,000**	–
Net income (e)	**$ 333**	377	**$ 743**	494	**$ 484**	761	**$ 490**	361	**$ 2,050**	1,993
Net income per share – basic	**$ 0.23**	0.25	**$ 0.50**	0.33	**$ 0.33**	0.52	**$ 0.34**	0.25	**$ 1.40**	1.35
Net income per share – assuming dilution	**$ 0.22**	0.24	**$ 0.49**	0.33	**$ 0.32**	0.50	**$ 0.33**	0.24	**$ 1.37**	1.31
Stock price per share (f)										
High	**$42 9/16**	43 7/8	**$41 7/16**	44 13/16	**$41 1/2**	43 3/4	**$37 3/4**	41 1/4	**$ 42 9/16**	44 13/16
Low	**$36 3/16**	34 3/16	**$34 1/16**	37 3/8	**$33 3/8**	27 9/16	**$30 1/8**	28	**$ 30 1/8**	27 9/16
Close	**$39 15/16**	43	**$35 3/8**	40 11/16	**$34 5/8**	30 15/16	**$35 7/16**	40 7/16	**$ 35 7/16**	40 7/16

(a) First through third quarter of 1998 excludes the operating results of Tropicana which was acquired in August of 1998.

(b) 1999 includes the operating results of deconsolidated bottling operations through their respective closing dates (see Note 2).

(c) Asset impairment and restructuring charges (see Note 4):

	1999			1998		
	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share
First quarter	$65	$40	$0.03	$ –	$ –	$ –
Fourth quarter	–	–	–	288	261	0.17
Full year	$65	$40	$0.03	$288	$261	$0.17

(d) Second quarter 1999 gain on bottling transactions of $1.0 billion ($270 million after-tax or $0.18 per share) relates to the PBG and Whitman bottling transactions (see Note 2).

(e) Includes, in 1999, in addition to $270 million associated with the bottling transactions described in (d) above, a tax provision of $25 million (or $0.02 per share) in the third quarter related to the PepCom transaction. In 1998, includes tax benefits of $200 million (or $0.13 per share) in the third quarter and $294 million (or $0.19 per share) in the fourth quarter related to the settlement of a tax case (see Note 14).

(f) Represents the composite high, low and closing prices for one share of PepsiCo's Capital Stock.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To Our Shareholders:

Management is responsible for the reliability of the consolidated financial statements and related notes. The financial statements were prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and assumptions, as required. The financial statements have been audited by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that our representations to the independent auditors are valid and appropriate.

Management maintains a system of internal controls designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified. The Audit Committee of the Board of Directors consists solely of directors who are not salaried employees and who are, in the opinion of the Board of Directors, free from any relationship that would interfere with the exercise of independent judgment as a committee member. The Committee meets several times each year with representatives of management, including internal auditors and the independent accountants to review our financial reporting process and our controls to safeguard assets. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 25, 1999 provide reasonable assurance that the financial statements are reliable and that our assets are reasonably safeguarded.

REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
PepsiCo, Inc.

We have audited the accompanying consolidated balance sheet of PepsiCo, Inc. and Subsidiaries as of December 25, 1999 and December 26, 1998 and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 25, 1999. These consolidated financial statements are the responsibility of PepsiCo, Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PepsiCo, Inc. and Subsidiaries as of December 25, 1999 and December 26, 1998, and the results of their operations and their cash flows for each of the years in the three-year period ended December 25, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

KPMG LLP
New York, New York
February 9, 2000

SELECTED FINANCIAL DATA

(in millions except per share, unaudited)
PepsiCo, Inc. and Subsidiaries

	1999[(a)(b)]	1998[(b)(c)]	1997[(b)]	1996[(b)]	1995[(d)]
Net sales	**$ 20,367**	22,348	20,917	20,337	19,067
Income from continuing operations	**$ 2,050**	1,993	1,491	942	1,422
Income per share – continuing operations – basic	**$ 1.40**	1.35	0.98	0.60	0.90
Income per share – continuing operations – assuming dilution	**$ 1.37**	1.31	0.95	0.59	0.88
Cash dividends declared per share	**$ 0.535**	0.515	0.49	0.445	0.39
Total assets [(e)]	**$ 17,551**	22,660	20,101	22,160	22,944
Long-term debt	**$ 2,812**	4,028	4,946	8,174	8,248

As a result of the deconsolidation of PBG and other bottling operations in 1999 and the Tropicana acquisition late in 1998, the data provided above is not comparable (see Note 1).

In 1997, we disposed of our restaurants segment and accounted for the disposal as discontinued operations (see Note 5). Accordingly, all information has been restated for the years 1997 and prior. Per share amounts reflect a two-for-one stock split in 1996.

(a) Includes a net gain on bottling transactions in 1999 of $1.0 billion ($270 million after-tax or $0.18 per share) and a tax provision related to the PepCom transaction of $25 million ($0.02 per share).

(b) Includes asset impairment and restructuring charges of $65 million ($40 million after-tax or $0.03 per share) in 1999, $288 million ($261 million after-tax or $0.17 per share) in 1998, $290 million ($239 million after-tax or $0.15 per share) in 1997 and $576 million ($527 million after-tax or $0.33 per share) in 1996 (see Note 4).

(c) Includes a tax benefit of $494 million (or $0.32 per share) (see Note 14).

(d) Includes the initial, noncash charge of $66 million ($64 million after-tax or $0.04 per share) upon adoption in 1995 of Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

(e) Includes net assets of discontinued operations in 1996 and 1995.

Capital Stock Information

Stock Trading Symbol - PEP

Stock Exchange Listings
The New York Stock Exchange is the principal market for PepsiCo Capital Stock, which is also listed on the Amsterdam, Chicago, Swiss and Tokyo Stock Exchanges.

Shareholders
At year-end 1999, there were approximately 220,000 shareholders of record.

Dividend Policy
Quarterly cash dividends are usually declared in November, January, May and July and paid at the beginning of January and the end of March, June and September. The dividend record dates for these payments are December 10, 1999, March 10, June 9, and September 8, 2000.

Quarterly cash dividends have been paid since PepsiCo was formed in 1965.

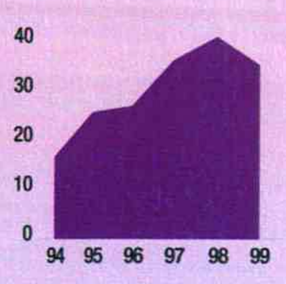
Cash Dividends Declared
Per Share (In $)

Stock Performance
PepsiCo was formed through the 1965 merger of Pepsi-Cola Company and Frito-Lay, Inc. A $1,000 investment in our stock made on December 31, 1994 was worth approximately $2,275 on December 31, 1999, assuming the reinvestment of dividends. This performance represents a compounded annual growth rate of 17.9%.

The closing price for a share of PepsiCo Capital Stock was the composite price as reported by Bloomberg for the years ending 1994-1999 restated for the spin-off of the restaurant business.

Past performance is not necessarily indicative of future returns on investments in PepsiCo Capital Stock.

Year-end Market Price of Stock
(In $) Based on calendar year-end



Shareholder Information

Annual Meeting
The Annual Meeting of Shareholders will be held at Frito-Lay Corporate Headquarters, 7701 Legacy Drive, Plano, Texas, on Wednesday, May 3, 2000 at 11:00 a.m. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your Stock Holdings
Registered Shareholders (shares held by you in your name) should address communications concerning statements, dividend payments, address changes, lost certificates and other administrative matters to:

The Bank of New York
Shareholder Services Dept.
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: (800) 226-0083
E-mail: shareowner-svcs@bankofny.com
Web site: http://stock.bankofny.com

or

Manager, Shareholder Relations
PepsiCo, Inc.
Purchase, NY 10577
Telephone: (914) 253-3055

In all correspondence or telephone inquires, please mention PepsiCo, your name as printed on your stock certificate, your social security number, address and telephone number.

Beneficial Shareholders (shares held by your broker in the name of the brokerage house) should direct communications on all administrative matters to your stockbroker.

SharePower Participants (employees with SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Group Employee Services
400 Atrium Drive
Somerset, NJ 08873
Telephone: (800) 637-6713 (U.S., Puerto Rico and Canada)
(908) 469-8877 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your social security number), your address, your telephone number and mention PepsiCo SharePower. For telephone inquiries, please have a copy of your most recent statement available.

Employee Benefit Plan Participants:
Capital Stock Purchase Program
(Moving to Merrill Lynch mid-year 2000)
Merrill Lynch
P.O. Box 30430
New Brunswick, NJ 08989
Attention: PepsiCo Capital Stock Purchase Program
Telephone: (800) 637-6713

PepsiCo 401(k) Plan
(Moving to Fidelity Investments® mid-year 2000)
Fidelity Investments®
82 Devonshire Street
Boston, MA 02109
Telephone: (800) 883-4015
(606) 491-8257 (outside U.S.)

Please have a copy of your most recent statement available when calling with inquires.

Shareholder Services

Dividend Reinvestment Plan
A brochure explaining this convenient plan, for which PepsiCo pays all administrative costs, is available from our transfer agent:

The Bank of New York
Dividend Reinvestment Dept.
P.O. Box 1958
Newark, NJ 07101-9774
Telephone: (800) 226-0083

Direct Deposit of Dividends
Information on the Direct Deposit service is available from our transfer agent at this address:

The Bank of New York
Shareholder Services Dept.
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Telephone: (800) 226-0083

Financial and Other Information
PepsiCo's 2000 quarterly earnings releases are expected to be issued the week of April 17, July 17, and October 2, 2000 and February 5, 2001.

Earnings and other financial results, corporate news and other company information are available on PepsiCo's web site: **http://www.pepsico.com**.

Copies of PepsiCo's SEC Form 8-K, 10-K and 10-Q reports and quarterly earnings releases are available free of charge. Contact PepsiCo's Manager of Shareholder Relations at (914) 253-3055.

Securities analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding PepsiCo's performance are invited to contact:

Susan V. Watson
Vice President, Investor Relations
PepsiCo, Inc.
Purchase, NY 10577
Telephone: (914) 253-3035

Independent Auditors
KPMG LLP
345 Park Avenue
New York, NY 10154-0102
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